79-950

No.

Supreme Court, U. S.
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In the

Supreme Court of the United States

IRVING S. SAVERSLAK, Individually and as Trustee under TRUST AGREEMENT dated October 1, 1959, as Amended,

Petitioner,

vs.

DAVIS-CLEAVER PRODUCE COMPANY, a Missouri Corporation,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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IN THE
SUPREME COURT OF THE UNITED STATES

No.

IRVING S. SAVERSLAK, Individually and as Trustee under TRUST AGREEMENT dated October 1, 1959, as Amended,

Petitioner,

vs.

DAVIS-CLEAVER PRODUCE COMPANY, a Missouri Corporation,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner, Irving S. Saverslak, respectfully prays that a Writ of Certiorari issue to review the opinion and judgment of the United States Court of Appeals for the Seventh Circuit entered on September 28, 1979.

OPINIONS BELOW

The opinion of the Court of Appeals has not yet been reported and is printed in App. A. pp. 1a-17a.

The opinions, findings and conclusions of law of the District Court for the Northern District of Illinois, East-

ern Division were not reported and are printed in Appendix B, p. 18a infra as follows:

Findings of Fact, Conclusions of Law and Memorandum Opinion and Minute Order of Judge McGarr entered November 29, 1974 pp. 18a-30a.

Memorandum Opinion and Order of Judge McGarr entered May 8, 1975 pp. 30a-32a.

Memorandum Opinion, Judgment Order and Minute Order of Judge McGarr entered April 27, 1978 pp. 32a-35a.

JURISDICTION

The Judgment of the Court of Appeals from which review is sought was dated September 28, 1979 and entered on that date. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1) and Supreme Court Rule 19 1(b) because that Court has decided an important question of Federal law in a way in conflict with applicable decisions of this Court and the Courts of Appeals of the Second and Eighth Circuits.

CONSTITUTIONAL PROVISIONS, STATUTES AND RULES

Art. 1, Sec. 8 U.S. Constitution. (App. G, p. 52a)
Chapter 83, Ill. Stats. 17 (App. G, p. 52a)
Rule 52, F.R.C.P. (App. G, p. 53a)

QUESTIONS PRESENTED FOR REVIEW

1. Was a conglomerate, upon acquiring Defendant subsidiary, bound by the subsidiary's obligation to use its best marketing efforts under a patent royalty agreement according to the principles established by this Court

in *Eclipse Bicycle Co.* v. *Farrow,* 199 U.S. 581 (1905) or was it free to proceed immediately upon a program to evade royalties and substitute a product which was neither better than nor different from the licensed product, and pay royalties only as long as it chose to sell the licensed product?

2. Is the obligation "to account" for failure to use best efforts under *Eclipse* identical to the obligation not to market under a non-compete clause?

3. Do the principles of *Eclipse* require a licensee under a best efforts clause to refrain from marketing competitive products, or does that case only require the payment of royalties or damages for abandonment of the licensed product where the substituted product is neither better nor different?

4. Where the Court of Appeals found that Plaintiff, who elected to perform after Defendant's breach, retained the right to sue for damages, did that right terminate, at some indefinite time not fixed by the Court, prior to expiration of the applicable 10 year Statute of Limitations by reason of waiver and estoppel, where Plaintiff's only conduct was continued performance under the contract?

STATEMENT OF THE CASE

This appeal and cross appeal arose from a diversity suit filed on April 1, 1971, for breach of a patent royalty agreement. Defendant Davis-Cleaver Produce Company (Davis-Cleaver) appealed from a judgment entered in favor of Saverslak on April 27, 1978 for damages for failure to affix the "Maxlotte" trademark to its labels (App. C, ¶22, p. 36a) in the amount of $220,506.00. (App.

B, p. 34a-35a) Saverslak cross-appealed from those portions of the trial court's judgment releasing Davis-Cleaver from its obligation to use its best efforts in the exploitation and marketing of the licensed products under ¶13 of the Agreement (App. C, p. 36a) and for Defendant's failure to assign its new formula and method to Plaintiff under ¶25 (App. C, p. 36a). The Court of Appeals for the Seventh Circuit reversed the judgment for damages finding waiver and estoppel for Plaintiff's failure to protest further during 1963-1970, a period three years less than the Illinois Statute of Limitations for breach of a written agreement; and affirmed the trial court's judgment in favor of Defendant relating to its obligation to use best efforts and/or to assign the new formula and methods to Plaintiff. (App. A, pp. 13a, 15a, 17a).

THE FACTS

The facts surrounding this dispute go back to the pioneer days in the development of the oven-roasted boneless turkey roll, now common in super market freezers. In the 1950's, Plaintiff Saverslak, owned and operated a small neighborhood grocery and butcher shop in Chicago with his three brothers. During this period, Saverslak experimented with various ways of producing a marketable boneless turkey roll which was sliceable without crumbling. Early versions of this product, however, were seriously flawed: the component pieces of turkey meat crumbled and separated when sliced. In 1957-1958, after much trial and error Saverslak developed two processes that overcame this problem. In the first process, a deboned turkey is wrapped in the whole skin, and when baked, the shrinking of the skin would apply pressure to the pieces of turkey drawing out the juices

of the meat which under compression acted as a binder. The second process was identical to the first except that each piece of poultry meat was dusted with wheat gluten, a high protein flour extract, and then fitted together and wrapped in the whole skin and baked. The wheat gluten then acted as a binder, holding the pieces together. Both processes created a compact product suitable for slicing.

In 1958, Saverslak applied for a patent on the first process and formed a corporation under the name "Maxlotte" which marketed turkey rolls in the Chicago area using the first process, and in Spring of 1959 made turkey rolls using the wheat gluten process.

In Spring of 1959, Davis-Cleaver, a poultry processing corporation, which had been unsuccessfully experimenting with the production of turkey rolls, learned of the Saverslak turkey roll and convinced Saverslak that they could make more money for him than he could make for himself, and negotiated a 20-year license to make and sell turkey rolls under both processes. In January, 1960 Saverslak filed an application for patent on the wheat gluten process. The license agreement provided that in exchange for the use of Saverslak's trade secrets and patent rights Davis-Cleaver would pay Saverslak a royalty for each pound of licensed turkey rolls sold. The Agreement contained two provisions now in issue. First, a best efforts clause required that Davis-Cleaver exert its best efforts in the exploitation and marketing of the licensed turkey rolls (¶13, App. C, p. 36a). Second, Davis-Cleaver agreed to affix the "Maxlotte" trademark to labels of all turkey rolls sold under the license and to submit all advertising to Licensor (¶22, App. C, p. 36a). The agreement also had

a provision precluding Davis-Cleaver from engaging in the manufacture or sale of products competitive with, similar or equivalent to the licensed products (¶20, App. C, p. 36a); however, that provision was never enforced by Saverslak and Davis-Cleaver sold at least a dozen competitive products without protest from Saverslak as shown in Plaintiff's Exhibit 60 (App. D, pp. 40a, 41a).

From 1959 through 1967, the relationship between the parties was mutually profitable and, for the most part, cooperative.

In 1961, Davis-Cleaver embarked upon a willful program of reducing the size of the "Maxlotte" trademark imprinted on its labels and ultimately in 1963 eliminated the trademark entirely, thereby intentionally breaching ¶22 (App. A, pp. 4a, 5a). Over a period of two years (1961-1962) Saverslak and his attorneys wrote Davis-Cleaver four letters demanding compliance with ¶22 (App. E, pp. 42a, 47a).

Central Soya Corporation, a conglomerate, (Central-Soya) in 1967 purchased Davis-Cleaver and promptly within the first month, instructed its research division, Chemurgy, to develop an alternative process of making turkey rolls, although the Saverslak roll was the best product of its kind on the market (App. B, p. 19a). The trial court concluded that the sole reason for Chemurgy's research was Central-Soya's desire to avoid paying royalties to Saverslak. Central Soya developed its new process in 1970 and Davis-Cleaver abandoned the Saverslak nutritious high protein wheat-gluten process in favor of a salt extraction process in which sugar is added to the meat to mask the unpleasant taste created by the excess salt (App. A, p. 5a and Footnote 5).

On October 1, 1970, Davis-Cleaver wrote to Saverslak advising him that it had discontinued using the licensed process on September 1, 1970, was terminating its royalty payments and was surrendering its rights under the license (P.T.X. 49, App. F, p. 48a).

On October 10, 1970 Saverslak wrote to Davis-Cleaver refusing to terminate the license agreement and requested an appointment. Saverslak assumed that this was another effort to reduce royalties which Davis-Cleaver had accomplished on prior meetings. (P.X. 50, App. F, p. 49a).

In response to a letter dated November 18, 1970, from Davis-Cleaver's attorney, stating for the first time that the license agreement was invalid, Saverslak, on December 4, 1970 excised three paragraphs including the anti-competition clause (¶20, App. C, p. 36a) which had never been enforced (P.X. 52, App. F, p. 50a). These objections were made for the first time more than 90 days after Davis-Cleaver had discontinued the use of the licensed product and cut off the royalties. As to ¶20, the anti-competition clause, Saverslak stated (P.X. 52, App. F, p. 50a):

> "1. Paragraph 20 of said License Agreement dated May 20, 1959 shall be and is hereby cancelled and deleted. However, the cancellation of this Paragraph 20 *shall not in any way affect the continuing obligation of Licensee to exert its best efforts under Paragraph 13.*" (Emphasis Added)

Davis-Cleaver rejected the amendment and declared the contract void and unenforceable from the beginning (App. A, p. 6a). Throughout the 12-year period (1959-1970) Saverslak received approximately $400,000 in royalties while Davis-Cleaver profitably sold turkey rolls produced pursuant to the license amounting to some $20,000,000.00.

In January, 1971, Saverslak filed suit, claiming *inter alia* that by substituting the salt extraction process for the wheat gluten method and eliminating royalty payments, Davis-Cleaver intentionally breached the best efforts clause (¶13) since the salt extract process was neither better than nor the product different from the licensed product; and that Davis-Cleaver's non-use of the Maxlotte trademark was a breach of ¶22.

The trial court held that Davis-Cleaver did not breach ¶13 construing it to require best efforts in the exploitation, manufacture and sale of wheat gluten turkey rolls "only as long as Davis-Cleaver was using the wheat gluten process" (App. B, pp. 26a, 29a).

The Court of Appeals affirmed the trial court's interpretation of ¶13 adding that "upon shifting to the salt extraction process" on September 1, 1970, Davis-Cleaver's duty under the agreement to exert its best efforts to market wheat gluten turkey rolls for 20 years was "suspended" (App. A, p. 15a). This conclusion was reached by the Court of Appeals as a result of the waiver of ¶20 in the unilateral amendment which was not drafted until December 4, 1970 (App. F, p. 50a) three months after the alleged "suspension" occurred.

The trial court further held that Davis-Cleaver breached ¶22 when it eliminated the "Maxlotte" trademark from its turkey roll labels. In awarding damages the trial court rejected Davis-Cleaver's argument that Saverslak's silence and receipt of royalties in the face of the willful breach constituted a waiver of his ¶22 rights, and noted that Defendant had not raised the issue of waiver in its pleadings (App. B, p. 27a). Saverslak contended and the trial court found that no serious damage occurred to him

from Davis-Cleaver's failure to use the Maxlotte name on labels until Davis-Cleaver withdrew from the royalty agreement in 1970 and discontinued using the Saverslak process. (App. B, p. 27a). The Court of Appeals in reversing the trial court conjectured that "Had Saverslak instead raised a timely objection the matter might have been resolved with minimum expense and effort" (App. A, p. 13a). The Court's conjecture, in the face of Davis-Cleaver's complete disregard of four prior written notices, is unfounded. (App. E, P.X. 18, 19, 20 & 21, pp. 42a-47a).

REASONS FOR GRANTING THE WRIT

An important issue is whether inventors who turn over their inventions to large corporations should receive the judicial protection as provided in *Eclipse* or should the inventors be subject to the option of the corporations who can unilaterally determine to market the licensed products and to pay royalties only as long as they choose.

The purpose of the Patent Law is to promote and encourage the development of the arts, crafts and sciences and to reward inventors for revealing their inventions to the public. The insecurity herein sanctioned, caused by the tortuous acts of corporations to evade inventors' rights, discourages development of the arts.

Basic to the issues here presented is whether the decision of this Court in *Eclipse* is to be followed as controlling precedent or whether that decision may be avoided by the erroneous reasoning of the lower courts. The lower courts failed to apply the rules announced by this Court in *Eclipse* which require the payment of royalties or damages for the abandonment of the licensed product where the substituted product is neither better nor different from the licensed product.

If permitted to stand, the decisions below would destroy the effectiveness and security afforded impecunious inventors by the "best efforts" clause of license agreements and permit conglomerate corporations to maximize profits at the expense of inventors, by evading license obligations at the corporations' sole will.

The importance of consideration by this Court is highlighted not only by the conflict between the Seventh Circuit decision in the instant case and the decision of this Court in *Eclipse* but also by its conflict with the decisions of the Eighth Circuit in *Carbon-Frost, Inc.* v. *Pure Carbonic, Inc.*, 103 F.2d 210 (1939) cert. den. 308 U.S. 569 (1939) and the decision of the Second Circuit in *Mechanical Ice Tray Corporation* v. *General Motors Corporation*, 144 F.2d 720 (1944) cert. den. 324 U.S. 844 (1944).

Courts of Appeals should be required to follow Rule 52 F.R.C.P. (App. G, p. 53a) in reversing trial courts' judgments and should not be permitted to assume defenses of waiver and estoppel based on conjecture of facts not in the record.

ARGUMENT

I.

THE COURTS BELOW HAVE DISREGARDED AND FAILED TO FOLLOW THIS COURT'S DECISION IN ECLIPSE BICYCLE CO. v. FARROW, THUS DESTROYING LICENSEES' "BEST EFFORTS" PROVISIONS IN PATENT LICENSE AGREEMENTS.

¶13 of the License Agreement reads:

> "Licensee agrees that it will proceed with diligence and will exert its best efforts in the exploitation, manufacture and sale of licensed products, and in all ways and to the best of its ability will promote the sale of the licensed products throughout the licensed territory and supply the market therefor."

In *Eclipse Bicycle Co.* v. *Farrow*, 199 U.S. 581 26 S.Ct. 150, 50 L.Ed. 317 (1905), the licensee, *Eclipse* agreed to "use due business diligence in the manufacture and sale of the devices embodied in the letters patent, and to push the sale by all proper and legitimate enterprise". In place of pushing the sale of plaintiff's "Farrow" device, Eclipse had substituted and sold two other devices. This Court there established the rule of law that a licensee, to escape liability for royalties, must prove that: (1) The substituted product, in a practical business sense, is both *better* than and *different* from the licensed product (199 U.S. 588-590). Followed in *Carbo-Frost, Inc.* v. *Pure Carbonic, Inc.*, 103 F. 2d 210 (8th Cir. 1939) cert. denied 308 U.S. 569, 60 S.Ct. 83, 84 L.Ed. 478, (1939). (2) If the licensee finds it expedient to use a substituted product, which is not both better than and different from the

licensed product, the licensee must pay a royalty or damages on the substituted product. Followed in *Carbo-Frost, Inc.* v. *Pure Carbonic, Inc.*, 103 F. 2d 210, 222-223; *Mechanical Ice Tray Corp.* v. *General Motors Corp.*, 144 F.2d 720, 725, 726 (2d Cir. 1944) cert. denied 324 U.S. 844, 65 S.Ct. 679, 89 L. Ed. 1406 (1944).

Although cited and argued in Petitioner's briefs, the Court of Appeals did not refer to nor follow *Eclipse.*

In passing upon ¶13, the Court of Appeals pointed out that the trial court had interpreted that paragraph, "as creating a duty to use best efforts to market wheat gluten turkey rolls only as long as Davis-Cleaver continues to sell that product" and added that "the best efforts clause became inapplicable when Davis-Cleaver shifted to another production method" (App. A, p. 13a).

The Court of Appeals observed that ¶13 either imposed a duty to exert best efforts throughout the twenty-year term of the license agreement, or as the trial court found, "only as long as Davis-Cleaver was actually selling wheat gluten turkey rolls". In affirming the trial court, the Court of Appeals stated that it looked to the intent of the parties as shown by the license agreement viewed as a whole. It then looked to the non-compete ¶20 (which was never enforced) and noted that on December 4, 1970, Petitioner's letter "cancelled and deleted" said paragraph because of antitrust and patent law problems, holding that such cancellation and deletion were effective as a suspension of ¶13 (App. A, pp. 14a, 15a).

However, the record in this case shows that consideration of the waiver of ¶20 in the unilateral amendment is irrelevant to a construction of ¶13. The waiver of ¶20 came 90 days after Davis-Cleaver's default was an accomplished fact. Before the waiver Davis-Cleaver had ceased using the licensed product and had given Saverslak notice of abandoning the license agreement (App. F, p. 48a).

¶20 had not been waived on September 1, 1970 when the Court of Appeals says the suspension took place. Furthermore the unilateral amendment of December 4, 1970 clearly evidences Saverslak's intention not to affect ¶13 and states:

> "1. Paragraph 20 of said License Agreement dated May 20, 1959 shall be and is hereby cancelled and deleted. However, the cancellation of this Paragraph 20 *shall not in any way affect the continuing obligation of Licensee to exert its best efforts under Paragraph 13.*" (Emphasis Added) (App. F, p. 50a)

The Court of Appeals, erroneously concluded:

> "Since paragraph 20 restricted Davis-Cleaver's transactions in similar or competitive products, *it seems to us that the parties did not intend that paragraph 13 be applied in a manner that* would accomplish the identical result." (Emphasis Added) (App. A, p. 15a)

In this connection, the Court recognized that, contrary to the well-established rule, it was construing the agreement in such a way as to leave ¶13 without substance (App. A, p. 15a).

In an attempt to bolster its erroneous conclusion:

1) The Court interpreted "the best efforts" ¶13 as accomplishing the same result as Saverslak initially sought under ¶20, the non-compete clause.
2) The Court stated that the manufacture and sale of salt extraction process turkey rolls would be forbidden by ¶13 *"on the theory that one cannot*

exert best efforts to exploit a wheat gluten turkey roll and simultaneously market a commercially indistinguishable competing product";

3) The Court concluded that if it *"were to interpret paragraph 13 to extend beyond the time Davis-Cleaver in fact used the wheat gluten process, that paragraph would effectively restrain Davis-Cleaver from marketing similar or competitive products"* which was *"precisely what Saverslak sought to do when he inserted paragraph 20 in the agreement,"* and to *"attribute to paragraph 13 a similar purpose would rob paragraph 20 of all substance"* (App. A, p. 15a) (Emphasis Added)

The Court of Appeals is simply wrong and its error results from its failure to apply the rules announced by this Court in *Eclipse.* Under the *Eclipse* rule: ¶13 *does not* accomplish the identical result sought under ¶20; ¶13 *does not forbid* the sale of a substituted salt extracted product which is neither better nor different from the patented product; it simply requires the Defendant to account for royalties or damages for the abandonment of the licensed product.

Eclipse was followed by the Eighth Circuit in *Carbo-Frost* and the Second Circuit in *Mechanical Ice Tray Corp.* (*supra*).

Applying this Court's rule in *Eclipse,* it is seen that if the salt extraction process was both better and different from the wheat gluten process, then Davis-Cleaver under ¶13 could use the substituted salt extraction process without payment of royalties or damages. The Court of Appeals found the salt extraction process to be a "commercially indistinguishable competing product," and in footnote 15, (App. A, p. 15a) stated:

"The products of the wheat gluten and salt extraction processes are so nearly identical that Davis-Cleaver found it unnecessary to even notify its wholesale customers of the adoption of the latter process."

Even though the salt extraction process was neither better than nor different from the wheat gluten process, Davis-Cleaver under the *Eclipse* rule, could not be restrained from selling the substituted salt extraction products, but would be required to account for royalties or damages under the agreement.

Accordingly, it can not be said that ¶13 was intended to accomplish or accomplished the same purpose initially stated under ¶20, which would prohibit the manufacture and sale of any competing products.

The belabored opinion and conclusion of the Court of Appeals should not be permitted to eliminate or confuse the long standing rule of this Court in *Eclipse* which fosters the public interest by safeguarding the rights of inventors and promoting the progress of science and useful arts, by securing for limited times to inventors the exclusive rights to their discoveries (Art. 1, Sec. 8 Constitution of the United States (App. G, p. 52a).

II.

IN REVERSING THE JUDGMENT FOR DAMAGES THE COURT OF APPEALS ACTED ON ASSUMPTION AND SPECULATION AND IGNORED RULE 52 F.R.C.P.

The trial court found that Davis-Cleaver willfully breached ¶22 in failing and refusing to apply the "Maxlotte" trademark to its labels commencing in 1963, and entered judgment in favor of Saverslak in the amount of $220,506.00 (App. B, p. 35a).

As to Saverslak's waiver of his right to insist upon Davis-Cleaver's compliance with its ¶22 obligation to affix the name "Maxlotte" to its labels, the trial court pointed out that such defense had not been raised in the pleadings and also found that waiver or estoppel were not justified under the circumstances since Saverslak had suffered no serious damage from the ¶22 violation until Davis-Cleaver withdrew from the royalty agreement and discontinued using the Saverslak process (App. B, p. 27a).

The Court of Appeals in reversing the trial court's judgment found that in eliminating the "Maxlotte" trademark from its labels in 1963, Davis-Cleaver intentionally breached ¶22 (App. A, p. 4a). It also found that Saverslak who elected to perform after such breach, retained the right to sue for damages, but that right terminated at some indefinite time not fixed by the Court, (prior to the expiration of the applicable Illinois 10 year statute of limitations) (App. G, p. 52a) by reason of waiver and estoppel (App. A, pp. 9a, 11a, 12a). Predicating its reversal of the trial court's judgment on waiver and estoppel purportedly arising from the period during which Saverslak silently accepted royalties the Court of Appeals stated:

> "Saverslak continued to hold this right during at least the initial part of the 7 year period during which he silently accepted royalties. At some point, however, which we need not fix, Saverslak's silent acquiescence ripened into an intentional relinquishment of his right to enforce the trademark." (App. A, pp. 11a, 12a).

The Statute of Limitations for breach of a written contract in Illinois is 10 years and Saverslak had an additional 3 years before there could be any extinguishment of his right to damages, unless some equitable right was proven to intervene.

Speaking to estoppel, the Court of Appeals stated that an estoppel arises only when a party's conduct *misleads another* to believe that a right will not be enforced and causes him to act to his *detriment* in *reliance* upon this belief (App. A, p. 10a); properly citing *Advanced Hydraulics, Inc.* v. *Otis Elevator Co.*, 525 F.2d 477 (7th Cir.) cert. denied 423 U.S. 869 (1975); and *Lebold* v. *Inland Steel Co.*, 125 F.2d 369, 375 (7th Cir.) cert. denied 316 U.S. 675 (1941); among others.

The record is devoid of any evidence showing that Saverslak's conduct was an inducement to Davis-Cleaver to act, or that there was detrimental reliance by Davis-Cleaver on such conduct. Davis-Cleaver unilaterally and independently reduced the size of the Maxlotte trademark in 1961 and eliminated the name entirely in 1963. No conduct by Saverslak induced such action nor could there be nor was there reliance by Davis-Cleaver on any purported action by Saverslak. Saverslak served 4 demand notices in 1961 and 1962 which Davis-Cleaver ignored. Saverslak's conduct after 1963 consisted solely of performance under the agreement.

In the absence of any evidence in the record upon which to fix a point of "intentional" relinquishment, the Court of Appeals *assumed* that Saverslak led Davis-Cleaver to believe ¶22 would not be enforced and stated:

> "We may reasonably *assume* that Saverslak's silent acquiescence and acceptance of the royalties led Davis-Cleaver to believe that paragraph 22 would no longer be enforced and that it could safely continue to omit

the trademark." (App. A, p. 13a) (Emphasis Added).

The assumption made by the Court of Appeals was in the face of a record wherein no evidence was presented on either any conduct causing Davis-Cleaver to act to its *detriment* or upon any *reliance* upon a belief that Saverslak would not someday enforce his rights to damages. Davis-Cleaver did not change its position but proceeded in its established defiance of Saverslak and ¶22 of the contract.

The Court of Appeals further *conjectured* that:

> "*Had* Saverslak instead raised a timely objection the matter *might* have been resolved with minimum expense and effort." (App. A, p. 13a) (Emphasis Added).

This is pure conjecture and in the face of the four letter notices sent by Saverslak, each of which was ignored by Davis-Cleaver, it would be more feasible to conjecture that in the face of past performance, Davis-Cleaver would have ignored any further objections from Saverslak.

The Court then proceeded to characterize the innocent, non-breaching Saverslak as if he were a guilty wrongdoer and stated:

> "We cannot allow him to cash in on the false assumption he created and on which the Defendant relied to its detriment." (App. A, 13a).

Evidence of *reliance* and *detriment* is totally absent in the record and is based only on the Court of Appeals *assumption* and *conjecture*.

The Court of Appeals reversed the trial court's judgment in favor of Saverslak in the amount of $220,506.00 based solely upon such assumptions and conjecture.

The trial court's findings on the ¶22 judgment for damages were not "clearly erroneous" as required under Rule 52, Federal Rules of Civil Procedure and the judgment should be restored.

CONCLUSION

For the foregoing reasons, this Court should grant a writ of certiorari.

Respectfully submitted,

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APPENDIX A

IN THE
UNITED STATES COURT OF APPEALS
For the Seventh Circuit

Nos. 78-1711, 78-1712

IRVING S. SAVERSLAK, Individually and as Trustee under Trust Agreement dated October 1, 1959, as Amended,
Plaintiff-Appellee, Cross-Appellant,

v.

DAVIS-CLEAVER PRODUCE COMPANY,
a Missouri Corporation,
Defendant-Appellant, Cross-Appellee.

Appeal from Cross-appeal from the United States District Court for the Northern District of Illinois, Eastern Division.
No. 71-C-810—FRANK J. MCGARR, *Judge*.

ARGUED APRIL 3, 1979—DECIDED SEPTEMBER 28, 1979

Before PELL and WOOD, *Circuit Judges*, and HOFFMAN, *Senior District Judge*.*

WOOD, *Circuit Judge*. This appeal and cross-appeal arise from a diversity suit for breach of contract filed more

* The Honorable Walter E. Hoffman, Senior Judge from the United States District Court of Eastern Virginia, is sitting by designation.

than eight years ago. Defendant Davis-Cleaver Produce Company (Davis-Cleaver) appeals, and plaintiff Irving S. Saverslak (Saverslak) cross-appeals from the judgment entered in favor of Saverslak on April 27, 1978 for damages in the amount of $220,506.

The facts surrounding this dispute go back to the pioneer days in the development of the oven-roasted boneless turkey roll, now so common in supermarket freezers. In the 1950's, the plaintiff-cross-appellant, Saverslak, owned and operated a small neighborhood grocery and butcher shop in Chicago. During this period, Saverslak became interested in diversifying his business and experimented with various ways of producing a marketable turkey roll. Early versions of this product, however, were seriously flawed: The component pieces of turkey meat crumbled and separated when sliced. In 1958, after much trial and error, Saverslak developed a process that overcame this problem. Using this process, the turkey is deboned, and each piece dusted with wheat gluten, a high protein flour extract. The pieces are then fitted together, wrapped in the whole skin, sewn into a compact cylindrical roll, and baked. When subjected to regulated cooking temperatures, the wheat gluten acts as a binder, holding the pieces together and creating a compact product suitable for slicing.

Soon after, Saverslak applied for a patent and formed a corporation under the name "Maxlotte," which marketed in the Chicago area turkey rolls made using the wheat gluten process. In 1959 Davis-Cleaver, a Missouri poultry processing corporation, which had been experimenting with the production of turkey rolls, learned of the Saverslak wheat gluten method and in short order negotiated a twenty-year license to make and sell turkey rolls produced using this process. The agreement provided that in exchange for the use of Saverslak's trade secrets and patent rights Davis-Cleaver would pay Saverslak a royalty for each pound of licensed turkey roll sold. Among other restrictions, the agreement further contained three provisions that are now in issue. First, Davis-Cleaver agreed

to affix the "Maxlotte" trademark to the labels of all turkey rolls sold under the license.[1] Second, a best efforts clause required that Davis-Cleaver exercise due diligence in marketing the licensed turkey rolls.[2] And third, Davis-Cleaver was to disclose and assign to Saverslak any new formulae, methods, or improvements for the manufacture and sale of the licensed products acquired during the term of the agreement.[3] Moreover, the agreement precluded

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[1] Paragraph 22 of the license agreement reads:

> All packages containing the licensed products shall have imprinted thereon the trademark "Maxlotte". The style and form of such packaging shall be subject to the written approval of Licensor and after such approval thereof by Licensor, said packaging shall not be changed by Licensee without Licensor's prior written consent. All advertising of the licensed products shall also be submitted to and approved by Licensor.

[2] Paragraph 13 reads:

> Licensee agrees that it will proceed with diligence and will exert its best efforts in the exploitation, manufacture and sale of the licensed products, and in all ways and to the best of its ability will promote the sale of the licensed products throughout the licensed territory and supply the market therefor.

[3] Paragraph 25 reads:

> Any and all new formula, methods, process, invention, improvement, application and/or patent for the manufacture and sale of the licensed products, made, invented or acquired by Licensee during the term hereof, shall be disclosed promptly to Licensor, and shall without compensation to Licensee, immediately become and be the sole property of Licensor, with the same force and effect as if the same were owned or controlled by Licensor at the date hereof; and Licensee shall on demand of Licensor, and without compensation, execute such applications for letters patent, assignments and other instruments as Licensor may require in order to vest in Licensor the entire legal and equitable title and interest in and to such

Davis-Cleaver from engaging in the manufacture and sale of products similar to or competitive with wheat gluten turkey rolls.

From 1959 until 1970 the relationship between the parties was mutually profitable and, for the most part, cooperative. In 1959 Saverslak visited Davis-Cleaver's Quincy, Illinois plant and trained its production workers in the new process. That same year, Maxlotte purchased turkey rolls from Davis-Cleaver for distribution in the Chicago area. In 1961 Saverslak revealed to Davis-Cleaver his patented process for making a similar molded skinless turkey loaf bound with wheat gluten. Throughout this twelve-year period, Saverslak annually visited the Davis-Cleaver plant. In return, Saverslak received over $400,000 in royalties and enjoyed profits from the sale of turkey rolls marketed by Maxlotte under a license grant expressly authorized in the Davis-Cleaver agreement. All the while, Davis-Cleaver profitably sold turkey rolls produced pursuant to the license.

Yet the parties did encounter a few mild disputes. In 1961, for example, when Davis-Cleaver reduced the size of the "Maxlotte" trademark imprinted on its label, Saverslak wrote in a registered letter to Davis-Cleaver: "If you will increase the size of the printing of the word 'Maxlotte' . . ., I find no objection to the use of the aforesaid labels." Davis-Cleaver neither responded nor enlarged the trademark. Saverslak's final mention of this matter was in a letter from his attorneys to Davis-Cleaver in 1962, which merely noted: "We presume, of course, that the trademark specified in Article 22 of the agreement is being used on all packages."

In 1963 Davis-Cleaver eliminated the "Maxlotte" trademark from its labels, thereby intentionally breaching para-

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([3] Continued)

formula, methods, process, invention or improvements. The provisions hereof shall be applicable to and govern any such new formula, method, process, invention or improvement.

graph 22 of the license agreement.[4] Davis-Cleaver, however, made no attempt to hide the fact of its breach from Saverslak. Each year it provided him with a sample turkey roll with current labels attached. Nevertheless, despite his knowledge of the breach, Saverslak neither protested nor acknowledged in any way the elimination of the trademark until he commenced this litigation seven years later.

In 1967 Central Soya Corporation (Central Soya) purchased Davis-Cleaver and instructed its research division, Chemurgy, to develop an alternative process of making turkey rolls. During its initial research, Chemurgy discovered that another inventor had filed a patent for a wheat gluten turkey roll process sixteen months before Saverslak had filed. Davis-Cleaver urged at trial that all subsequent research was prompted by its apprehension that it might be liable for infringing the earlier patent. The trial court, however, concluded that Saverslak's process did not infringe the earlier patent, that such assertions created a spurious issue, and that the sole reason for Chemurgy's research was Central Soya's desire to avoid paying royalties to Saverslak. Central Soya accomplished this in 1970 when Davis-Cleaver abandoned the Saverslak process in favor of a salt extraction process.[5]

Shortly thereafter, Davis-Cleaver sought to surrender its rights under the license. In October 1970 it notified Saverslak that it had discontinued using the wheat gluten process and consequently would no longer pay royalties. Saverslak promptly rejected the attempted surrender and in December of that year attempted to unilaterally amend the license agreement by excising three paragraphs that

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[4] *See* note 1 *supra*.

[5] A salt slurry is injected into the turkey roll prior to baking. The salt draws out the meat's natural proteins, which act as a binder. Sugar is then added to the meat to mask the somewhat unpleasant taste created by the salt.

presented antitrust and patent law problems.[6] Davis-Cleaver rejected the amendment and declared the contract void and unenforceable from its inception.

In January 1971 Saverslak filed suit, claiming that by substituting the salt extraction process for the wheat gluten method and eliminating royalty payments Davis-Cleaver intentionally breached the best efforts (paragraph 13) and assignment of new methods (paragraph 25) clauses. The complaint further alleged that Davis-Cleaver's non-use of the Maxlotte trademark was a breach of paragraph 22.

In a memorandum opinion dated November 29, 1974,[7] Judge McGarr found that Davis-Cleaver was not obligated under paragraph 25 to disclose and assign its salt extraction process to Saverslak. Judge McGarr read paragraph 25 to cover only new formulae, methods, improvements, and the like related to the wheat gluten process. The court then found that such a relation did not exist between the wheat gluten and salt extraction processes. The court also found that Davis-Cleaver did not breach paragraph 13, construing it to require best efforts in the exploitation, manufacture, and sale of the wheat gluten turkey rolls only as long as Davis-Cleaver was using the wheat gluten process.

Judge McGarr concluded, however, that Davis-Cleaver breached paragraph 22 when it eliminated the "Maxlotte"

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[6] In a letter to Davis-Cleaver dated December 4, 1970, Saverslak sought to excise paragraph 20, which prohibits Davis-Cleaver from producing or selling similar or competitive products. *See Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969); *International Salt Co.* v. *United States*, 332 U.S. 392, 395-96 (1947); *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 455-59 (1940). For the text of paragraph 20, see p. 13 *infra*. The two other provisions Saverslak sought to excise are not relevant to this appeal.

[7] *Saverslak* v. *Davis-Cleaver Produce Co.*, No. 71-C-810 (N.D. Ill., Nov. 29, 1974).

trademark from its turkey roll labels. In awarding damages, the court rejected Davis-Cleaver's argument that Saverslak's seven-year silence and receipt of royalties in the face of this obvious breach constituted a waiver of his paragraph 22 rights. Finding merit in this argument, we address it first.

I.

Davis-Cleaver eliminated the "Maxlotte" trademark from its turkey roll labels in 1963. Saverslak, however, despite full knowledge of the breach and ample opportunity to protest, did not seek to enforce paragraph 22 until 1970. In the interim the parties carried on a normal business relationship, which included frequent and regular communication. Most notably, Saverslak annually visited the Davis-Cleaver plant, at which time Davis-Cleaver presented him with a sample turkey roll with current labeling attached. Yet, until this suit, Saverslak said nothing, choosing instead to silently acquiesce in the marketing of the Davis-Cleaver product without the "Maxlotte" trademark—and to collect more than $400,000 in royalties.

The trial court in its memorandum opinion noted that "the defense of waiver or estoppel is unjustified under the circumstances." No. 71-C-810 at 16. The court apparently predicated this conclusion on its finding that Saverslak was not injured by the omission of the trademark until 1970 when Davis-Cleaver terminated the license agreement.[8] Under this analysis, Saverslak did not waive

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[8] The trial court reasoned as follows:

> If the Maxlotte trademark had been prominently displayed on all Davis-Cleaver labels throughout the life of the Saverslak/Davis-Cleaver relationship as required by the contract existing between the parties, defendant's customers would have identified the wheat-glutin [sic] process oven-roasted, boneless turkeys manufactured under the Saverslak process with the name Maxlotte. When, after termination of the

his right to sue for damages because he filed suit within a few months of incurring injury.

Saverslak attempts to bolster the trial court's rationale, asserting that despite his seven-year silence he did not waive his right to recover damages, but rather merely forfeited the right to *repudiate* the license agreement for breach of paragraph 22. He quotes various treatises, which at least facially support his contention. *See* 17 Am. Jur. 2d, Contracts § 447 (1964); 3A Corbin on Contracts § 766 (1960); 5 Williston on Contracts § 683 (3d ed. 1961). These passages, however, are inapposite because they deal not with waiver, but with the election of rights by a non-breaching party faced with a non-conforming tender that is also a condition precedent to his duty to perform. A non-breaching party faced with the dilemma of whether to perform in the face of the other party's breach may elect to avoid the contract or treat the contract as in full force and retain the right to sue for damages arising from the breach. *Kentucky Natural Gas Corp.* v. *Indiana Gas & Chemical Corp.*, 129 F.2d 17, 19 (7th Cir.), *cert. denied*, 317 U.S. 678 (1942). *See also Denison Mines Ltd.* v. *Michigan Chemical Corp.*, 469 F.2d 1301 (7th Cir. 1972). This was precisely the election facing Saverslak in 1963 when Davis-Cleaver ceased using the "Maxlotte" trademark. Saverslak's initial silence coupled with his receipt of royalties was an election to treat the contract as in full force. Admittedly, Saverslak at that point retained the right to sue for damages arising from the breach. But that right did not survive indefinitely.

([8] Continued)

> license agreement and the utilization by defendant of a different process, the Maxlotte trademark disappeared from its product, Saverslak could have reached and sold to defendant's former customers who could have identified him with the Maxlotte process. It is quite possible that Saverslak could have mounted a successful merchandising program predicated upon the superiority of the wheat-glutin [sic] process under the Maxlotte name, to the new Davis-Cleaver process which involved an excess of salt in order to avoid a patent, which salt was subsequently masked with a sweetener. Defendant's failure to live up to its contract obligation to prominently display the Maxlotte trademark and to reinforce the identification of the wheat-glutin [sic] process with the Maxlotte name has deprived the plaintiff Saverslak of this competitive and marketing advantage.

No. 71-C-810 at 15-16.

Inquiry into the effect of his continued silent acceptance of benefits is necessary to determine whether the right survived the commencement of this suit.[9] The principles of waiver and estoppel support the notion that a party to a contract may not lull another into a false assurance that strict compliance with a contractual duty will not be required and then sue for non-compliance. *See Advanced Hydraulics, Inc.* v. *Otis Elevator Co.*, 525 F.2d 477 (7th Cir.), *cert. denied*, 423 U.S. 869 (1975); *Continental Coatings Corp.* v. *Metco, Inc.*, 464 F.2d 1375 (7th Cir. 1972); *Graubremse GMBH* v. *Berg Mfg. & Sales Co.*, 417 F.2d 1201 (7th Cir. 1969). However, despite the frequency with which they are used interchangeably, the two principles often address different factual settings.

Analysis of the applicability of waiver focuses on the intent of the non-breaching party. If he has intentionally relinquished a known right, either expressly or by conduct inconsistent with an intent to enforce that right, he has waived it and may not thereafter seek judicial enforcement. *Pierce* v. *MacNeal Memorial Hospital Ass'n.*, 46 Ill. App. 3d 42, 52, 360 N.E.2d 551, 559 (1st Dist. 1977); *John Kubinski & Sons, Inc.* v. *Dockside Development Corp.*, 33 Ill. App. 3d 1015, 1020, 339 N.E.2d 529,

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[9] Whether the facts proven are sufficient to constitute a waiver is a question of law and, therefore, properly before this court for review. *Graubremse GMBH* v. *Berg Mfg. & Sales Co.*, 417 F.2d 1201, 1204 (7th Cir. 1969); *Stewart* v. *Meyers*, 353 F.2d 691, 694 (7th Cir. 1965).

533 (1st Dist. 1975); 5 Williston on Contracts § 678 (3d ed. 1961 & Supp. 1979). In a contractual setting, as here, waiver occurs when an obligor manifests an intent not to require an obligee to strictly comply with a contractual duty. *Graubremse GMBH* v. *Berg Mfg. & Sales Co.*, 417 F.2d at 1204-05; *Stewart* v. *Meyers*, 353 F.2d 691, 694 (7th Cir. 1965); *Chicago Sugar Co.* v. *American Sugar Refining Co.*, 176 F.2d 1, 7 (7th Cir.), *cert. denied*, 338 U.S. 948 (1949); *Hubshman* v. *Louis Keer Shoe Co.*, 129 F.2d 137, 140 (7th Cir. 1942); *John Kubinski & Sons, Inc.* v. *Dockside Development Corp.*, 33 Ill. App. 3d at 1019-20, 339 N.E.2d at 533-34.

Estoppel, on the other hand, focuses not on the obligor's intent, but rather on the *effects* of his conduct on the obligee. Justice Clark, writing for this court in *Advanced Hydraulics*, 525 F.2d at 479, crystalized the distinguishing characteristic. An estoppel, he noted, arises only when a party's conduct misleads another to believe that a right will not be enforced and causes him to act to his detriment in reliance upon this belief. *Id.* (quoting *Lebold* v. *Inland Steel Co.*, 125 F.2d 369, 375 (7th Cir.), *cert. denied*, 316 U.S. 675 (1941)); *see* 5 Williston on Contracts § 691 (3d ed. 1961 & Supp. 1979). Even if the obligor has not waived a known right, he may be estopped from enforcing it.[10]

[10] *Cf. Sleeping Giant Park Ass'n* v. *Connecticut Quarries Co.*, 115 Conn. 70, 160 A. 291 (1932), which involves facts strikingly similar to those now in issue, aptly illustrates the waiver-estoppel distinction. In that case, defendant's predecessor in title agreed to pay royalties of two cents for each cubic yard of rock quarried from plaintiff's predecessor's land. The agreement, however, expressly forbade the quarry company from taking rock from any point visible from the street. Notwithstanding this restriction, the company's operations left the quarry face visible from the street for at least nine years prior to commencement of suit. During this period, the plaintiff's predecessor continuously observed the quarry operations and collected appropriate royalties without objection to the company's

In light of the preceding distinction, we hold that Saverslak waived his rights under paragraph 22 and therefore may not recover damages for Davis-Cleaver's non-use of the "Maxlotte" trademark.[11] Regardless of the soundness of the trial court's conclusion that Saverslak was not injured until 1970, which we seriously question,[12] the trial court's rationale evades the test for determining whether Saverslak waived his paragraph 22 rights. The test is simply whether he intentionally relinquished a known right.

In 1963, when Davis-Cleaver eliminated the "Maxlotte" trademark from its label, Saverslak held a contractual right to enforce Davis-Cleaver's use of the trademark. Saverslak continued to hold this right during at least the initial part of the seven-year period during which he silently accepted royalties. At some point,

([10] Continued)
non-compliance with the restriction. Accordingly, the court held that the acceptance of royalties coupled with silence in the face of knowledge of non-compliance waived any right to damages for past violations. Further finding that the company did not detrimentally rely on the silent acquiescence—the mining equipment had been installed prior to straying into the restricted area—the court noted that the plaintiff was not estopped from proceeding in equity to enjoin future violations, presumably because he had revived his rights. *See* note 11 *infra*.

[11] We do not address the question whether Saverslak could have revived his paragraph 22 rights by a timely rescission of his waiver because there is no suggestion in the record that he ever sought to have Davis-Cleaver replace the "Maxlotte" trademark on its label.

[12] Saverslak, more likely, was injured in 1963. Before removal, the trademark had been accumulating at least a small recognition value by being associated in the public eye with the Davis-Cleaver product. After removal, however, the trademark no longer grew in value, and any value it had accumulated began to dissipate.

however, which we need not fix, Saverslak's silent acquiescence ripened into an intentional relinquishment of his right to enforce the trademark use. The questions whether and when he suffered damages are simply irrelevant[13] because Saverslak did not retain an underlying contract right upon which to base damages.

Initially, when Davis-Cleaver diminished the size of the "Maxlotte" trademark, Saverslak's written objections evidenced his intent to enforce his paragraph 22 rights. However, from 1963, when Davis-Cleaver finally eliminated the trademark, until 1970, when Saverslak brought suit, there was not even a hint of protest in the face of this open breach of contract. This seven-year period of silent acquiescence in the face of ample opportunity to protest alone evinces Saverslak's intent to relinquish a known right. The acceptance of royalties makes that intent crystal clear.[14]

Alternatively, we hold that regardless of whether Saverslak waived his paragraph 22 rights, he is estopped

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[13] If the time of injury served as the benchmark for determining waiver, a party conceivably could sit on his rights indefinitely regardless of the foreseeability of future damages, lull the other party into continuing his non-compliance, and then sue for damages. Such a result would leave only a shell where waiver once stood as a good defense.

[14] *See Graubremse GMBH* v. *Berg Mfg. & Sales Co.*, 417 F.2d at 1205, in which this court found that a vendor's acceptance of benefits including receipt of the full purchase price under a sales contract was "inconsistent with any claim of continued reliance on the contractual requirement [that the vendee had breached]." The court further noted that the vendor's continued performance "manifested [his] intention to waive the requirement." *Id. Cf. Kirkpatrick* v. *Petreikis*, 44 Ill. App. 3d 575, 577, 358 N.E.2d 679, 680 (3d Dist. 1976) (acceptance of late payments without protest waives time of the essence clause).

from enforcing them. We may reasonably assume that Saverslak's silent acquiescence and acceptance of royalties led Davis-Cleaver to believe that paragraph 22 would no longer be enforced and that it could safely continue to omit the trademark. Had Saverslak instead raised a timely objection the matter might have been resolved with minimum expense and effort. Under these circumstances, we cannot allow him to cash in on the false assumption he created and on which the defendant relied to its detriment.

II.

Saverslak contends in his cross-appeal that Davis-Cleaver's discontinuance in 1970 of the wheat gluten process in favor of the salt extraction process was a breach of the best efforts clause. Paragraph 13 requires that Davis-Cleaver "proceed with diligence and . . . exert its best efforts in the exploitation, manufacture and sale of the licensed products, and in all ways and to the best of its ability . . . promote the sale of the licensed products throughout the licensed territory and supply the market therefor." The parties do not dispute that when Davis-Cleaver ceased using the wheat gluten process it was no longer exerting its best efforts to market the licensed turkey rolls. Consequently, we are faced with the question whether Davis-Cleaver's paragraph 13 duties extend beyond the occurrence of that event.

Although the license agreement extends for twenty years, the trial court interpreted paragraph 13 as creating a duty to use best efforts to market wheat gluten turkey rolls only as long as Davis-Cleaver continues to sell that product. Following this line of reasoning, the best efforts clause became inapplicable when Davis-Cleaver shifted to another production method. The unique facts of this case compel us to agree.

Many of the provisions of the 1959 agreement are expressly subject to the twenty-year term of the agreement; however, paragraph 13 makes no mention of its

duration. This omission gives rise to an interpretive ambiguity, the resolution of which is determinative of the question posed above. Paragraph 13 either imposes a duty to exert best efforts throughout the twenty-year term of the agreement or, as the trial court found, only as long as Davis-Cleaver is actually selling wheat gluten turkey rolls. In resolving this ambiguity we look to the intent of the parties in including paragraph 13 within their agreement.

The most reliable evidence of that intent is the 1959 agreement viewed as a whole. Our construction of the agreement begins with paragraph 20, which provides that Davis-Cleaver "shall not manufacture, sell or offer to sell any other products competitive with, similar or equivalent to the licensed products." Davis-Cleaver contends, and Saverslak does not dispute that this exclusive use provision is unlawful because of antitrust and patent law problems, which we need not address. *See Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969); *International Salt Co.* v. *United States*, 332 U.S. 392, 395-96 (1947); *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 455-59 (1940).

In an attempt to purge the agreement of these problems, Saverslak in his letter of December 4, 1970 to Davis-Cleaver wrote: "Paragraph 20 . . . shall be and is hereby cancelled and deleted." These words—though ineffective as an amendment because Saverslak acted unilaterally—are effective as a waiver. *See* pp. 8-9 *supra*. Our construction of paragraph 13 therefore proceeds in light of Saverslak's waiver of paragraph 20. When the parties formed the 1959 agreement, paragraphs 13 and 20 together created Davis-Cleaver's duty (1) to exert best efforts to market the wheat gluten turkey roll, (2) which was the only turkey roll or similar product that it could market. Each paragraph served a distinct purpose. Paragraph 20 ensured that Davis-Cleaver would market the wheat gluten turkey roll and none other. Paragraph 13, on the other hand, ensured that Davis-Cleaver would

diligently exploit that product. Since paragraph 20 restricted Davis-Cleaver's transactions in similar or competitive products, it seems to us that the parties did not intend that paragraph 13 be applied in a manner that would accomplish the identical result.

In reaching this conclusion we are cognizant of the well-established rule that a court should not construe a contract in such a way as to leave any of its provisions without substance. But Saverslak would have us interpret paragraph 13 as accomplishing the same result he initially sought under paragraph 20. It follows from his interpretation that the very manufacture and sale of salt extraction process turkey rolls would be forbidden by paragraph 13 on the theory that one cannot exert best efforts to exploit a wheat gluten turkey roll and simultaneously market a commercially indistinguishable competing product.[15] Consequently, if we were to interpret paragraph 13 to extend beyond the time Davis-Cleaver in fact used the wheat gluten process, that paragraph would effectively restrain Davis-Cleaver from marketing similar or competitive products. This is, of course, precisely what Saverslak sought to do when he inserted paragraph 20 in the agreement. To attribute to paragraph 13 a similar purpose would rob paragraph 20 of all substance.

We cannot construe the 1959 agreement in the same way we might have construed it had Saverslak not waived paragraph 20. Accordingly, we affirm the trial court's interpretation of paragraph 13 as imposing a duty on Davis-Cleaver to exert best efforts to market the wheat gluten turkey roll only as long as it sells that product. Upon shifting to the salt extraction process, its duty under the 1959 agreement to exert best efforts to market wheat gluten turkey rolls was suspended.

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[15] The products of the wheat gluten and salt extraction processes are so nearly identical that Davis-Cleaver found it unnecessary to even notify its wholesale customers of the adoption of the latter process.

III.

The final question we address is the scope of the grant-back clause. Paragraph 25 of the 1959 agreement provides in pertinent part[16]:

> Any and all new formula, methods, process, invention, improvement, application and/or patent *for the manufacture and sale of the licensed products,* made, invented or acquired by Licensee during the term hereof, shall be disclosed promptly to Licensor, and shall without compensation to Licensee, immediately become and be the sole property of Licensor. . . . (emphasis added)

Saverslak contends that Davis-Cleaver breached paragraph 25 when it failed to disclose and assign to him its rights in the salt extraction process.

The trial court read paragraph 25 to be limited by its terms to improvements and the like pertaining to the Saverslak wheat gluten process. Accordingly, the court held Davis-Cleaver was under no duty to disclose and assign its rights in the salt extraction process to Saverslak.

This result is simply a straightforward application of the terms of paragraph 25, which expressly limit its scope to new developments in the "manufacture and sale of the licensed products . . . ." Since the products licensed under the 1959 agreement are limited to *wheat gluten* turkey rolls,[17] paragraph 25 is inapplicable to the unrelated salt extraction process turkey rolls. In light of the clarity with which the terms of paragraph 25 resolve

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[16] For the full text of paragraph 25, see note 3 *supra.*

[17] Paragraph 9(A) defines "licensed products" as roast breast of turkey, boneless roast turkey, and smoked turkey "manufactured and sold by Licensee during the term hereof, and embodying Licensor's formula, secret process, methods, invention and trade secret . . . ."

this claim, the questionable evidence of the parties' intent presented by Saverslak is irrelevant.

The judgment of the district court awarding damages in the amount of $220,506 for breach of paragraph 22—the trademark use provision—is reversed. We affirm in all other respects.

A true Copy:

Teste:

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Clerk of the United States Court of Appeals for the Seventh Circuit

APPENDIX B

IN THE

UNITED STATES DISTRICT COURT FOR THE

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

No. 71 C 810

IRVING S. SAVERSLAK, et al.,

Plaintiffs,

vs.

DAVIS-CLEAVER PRODUCE COMPANY,

Defendant.

FINDINGS OF FACT, CONCLUSIONS OF LAW AND MEMORANDUM OPINION

The Court, after the taking of evidence and the consideration of post-trial briefs of the parties, makes and enters the following Findings of Fact, Conclusions of Law and Final Order in this case.

The defendant Davis-Cleaver started making turkey rolls in the early 1950's under the Snyder Patent, No. 2,633,601. The end product of this process was an uncooked frozen turkey roll. In 1958, Davis-Cleaver began to experiment with turkey rolls under the George Patent, No. 2,640,779. The George rolls differed from the previously made Snyder rolls in that they were roasted in a mold. These rolls were not satisfactory, however, because they separated into pieces and were not suitable for slicing.

During the years 1954 to 1959, the plaintiff, quite independently of defendant Davis-Cleaver, was developing processes for making an oven-roasted, boneless turkey which was slicable without crumbling or shredding and which could be reheated without falling apart. On October

10, 1958, a corporation was established by Irving Saverslak, plaintiff, for marketing this product under the trademark "Maxlotte". The original process included boning the raw turkey, retaining the breast meat in a unitary mass attached to the skin, wrapping the breast meat in the skin into a compact roll, and sewing the skin tightly about the breast meat so as to retain the juices during baking, and to cause the skin, which shrank from baking, to compress the meat into a unified mass. A subsequent process, which represented a substantial improvement over the earlier process, involved boning the raw turkey in substantially the same manner except that the breast meat did not remain attached to the skin. Each piece of meat was dusted with wheat glutin, the meat pieces were fitted together, wrapped in the skin, sewed into a tight, compact roll, wrapped in aluminum foil, and baked. A combination of the cooking temperatures, the shrinking and compression of the skin, and the effect of the wheat glutin resulted in an oven-roasted, boneless turkey which would slice without shredding and could be reheated without falling apart. In 1959, this Saverslak oven-roasted turkey roll was being sold by Saverslak into Chicago and was apparently the best product of its kind on the market.

Through its Chicago distributor, defendant Davis-Cleaver learned of the Saverslak roll, and on May 20, 1959, an agreement was entered into wherein Davis-Cleaver took a license to make and sell the Saverslak roll.

At the date of the execution of the aforesaid agreement, the process for producing oven-roasted, boneless turkeys was a trade secret owned by Irving Saverslak, which was the subject of an application for a United States Letters Patent filed July 30, 1958. While the briefs of the parties draw inferences from the fact that the process in issue was at one time a trade secret and later a patent, the Court finds no relevance in this distinction. The original agreement was for disclosure and use of trade secrets with an indicated intent to patent and license under the patent, if issued. This understanding and in-

tention was clear on the part of both parties from the outset. The trade secret became a patented process and the license, therefore, became a license of a patented process. The royalty obligations assumed under the character of the use of trade secrets became equally valid royalty obligations for the use of the patented process. For the purposes of this litigation, the trade secret merged into the patent, the trade secret royalty agreement became the patent royalty agreement and no new issue is injected into this case by virtue of the changing character of the process from a trade secret to a patented process during the course of the life of the agreement between the parties.

The agreement in issue provided for a license to use certain trade secret and patent rights of Saverslak in return for a royalty of five cents a pound for each oven-roasted, boneless turkey roll sold by defendant Davis-Cleaver. Those paragraphs of the agreement which have particular bearing on the issues and resolution of this case are paragraph 25, which provides as follows:

> 25. Any and all new formula, methods, process, invention, improvement, application and/or patent for the manufacture and sale of the licensed products, made, invented or acquired by Licensee during the term hereof, shall be disclosed promptly to Licensor, and shall without compensation to Licensee, immediately become and be the sole property of Licensor, with the same force and effect as if the same were owned or controlled by Licensor at the date hereof; and Licensee shall on demand of Licensor, and without compensation, execute such applications for letters patent, assignments and other instruments as Licensor may require an order to vest in Licensor the entire legal and equitable title and interest in and to such formula, methods, process or invention or improvements. The provisions hereof shall be applicable to and govern any such new formula, method, process, invention or improvement.

Paragraph 13:

> 13. Licensee agrees that it will proceed with diligence and will exert its best efforts in the exploitation, manufacture and sale of the licensed products, and in all ways and to the best of its ability will promote the sale of the licensed products throughout the licensed territory and supply the market therefor.

Paragraph 22:

> 22. All packages containing the licensed products shall have imprinted thereon the trademark "Maxlotte". The style and form of such packaging shall be subject to the written approval of Licensor and after such approval thereof by Licensor, said packaging shall not be changed by Licensee without Licensor's prior written consent. All advertising of the licensed products shall also be submitted to and approved by Licensor.

While the parties agreed from time to time to change the royalty rate, the underlying agreement was not changed in any other respect at any time relative to the issues in litigation.

Pursuant to the agreement, Davis-Cleaver installed ovens necessary for the process, relying upon the advice and suggestions of Saverslak, and thereafter Saverslak went to the Davis-Cleaver plant in June of 1959 and disclosed the complete secret process to Davis-Cleaver, remaining at the plant and working with the production employees for a week, by way of assisting Davis-Cleaver in the commencement of the manufacture of turkey rolls utilizing Saverslak's wheat glutin process and his spice formula.

During the first six months of operation under the contract, Davis-Cleaver went into full production, but did not meet the minimum sales required under the contract. Saverslak waived the deficiency for that period

and waived also his right to enforce the minimum sales clause under the contract. On or about May 29, 1959, Saverslak exercised a right afforded him under the contract by granting a license to his own corporation, Maxlotte Corporation, to market the oven-roasted, boneless turkeys. For about a year, Maxlotte purchased its turkeys from Davis-Cleaver under an arrangement that it would handle the sale of turkeys in the Chicago area. Finding this unprofitable due to the small discount allowed, Maxlotte commenced fabricating its own oven-roasted, boneless turkeys under its right to do so in the licensing contract.

Over the next few years, the arrangement proved profitable to both the licensor and licensee and the relationship between the parties was satisfactory and mutually cooperative. In 1961, Saverslak experimented with and developed a so-called Pullman loaf, which was a loaf made of turkey pieces with wheat glutin arranged in a mold and formed without the turkey skin. Acting under the provisions of his contract, Saverslak advised the defendant of this development and taught this process to Davis-Cleaver representatives who adopted it and went into production. During the years 1959 to 1963, the contract relationship with the parties was modified in some respects not relevant to this litigation, including adjustments of the royalties and some ongoing dealings with regard to the use by Davis-Cleaver of the trademark Maxlotte on its oven-roasted, boneless turkey labels. As required by the contract in the earlier years of the relationship, Davis-Cleaver prominently displayed this trademark on its labels. In 1961, Davis-Cleaver reduced the size of the Maxlotte designation and Saverslak complained. In 1963, Davis-Cleaver completely removed the Maxlotte designation from its labels. The Court finds that Davis-Cleaver had an obligation under its license agreement to retain the Maxlotte designation on its labels in the sale of the licensed oven-roasted, boneless turkeys, and that its discontinuance of the Maxlotte label was in violation of its contract obligations.

Despite the "Maxlotte" disagreement, the relationship between the parties to the contract between 1959 and 1967 was agreeable and beneficial to both parties. In 1967, the Davis-Cleaver Company was sold to a corporation known as Central Soya, which placed the management of Davis-Cleaver in the hands of one of its vice presidents, Newell Wright. Central Soya was apparently not satisfied with the profitability of the Davis-Cleaver division and expended some considerable effort in attempts to increase the sales of the licensed oven-roasted, boneless turkeys. While some sales increase was achieved, it was apparently not satisfactory. Concurrently with the sales increase program, Central Soya's research branch, the "Chemurgy" division was instructed to institute research to determine whether there was any soy protein product or other process which could be used in the place of Saverslak's wheat protein, with the apparent and obvious goal of seeking to develop a process for producing a satisfactorily marketable oven-roasted boneless turkey not subject to the Saverslak patent and, therefore, the Saverslak license agreement. In the process of this development and research, Central Soya uncovered a Swift & Company patent to Carlin, No. 3,100,710. It is the contention of defendant Central Soya that its further research and development was motivated by the need to avoid what it deemed to be an infringement by the Saverslak process on the earlier Carlin patent, which had to do with using General Mills pro-80 wheat glutin as a meat binder and was filed sixteen months before the Saverslak application.

It is the conclusion of this Court that the Saverslak process does not infringe upon the Carlin patent and that its injection into this case creates a spurious issue. The Court finds that the basic thrust of the research effort of Central Soya was to develop a product competitive in the market with the Saverslak process, but non-infringing of the Saverslak patent. The end product of this research was the development by Central Soya of a salt-extraction

process which, in its early stages, seemed apparently to infringe upon a salt-extraction process patented by Armor, Hanson Patent No. 3,285,752. Ultimately, Central Soya was successful in developing a salt-extraction process for oven-roasted, boneless turkeys which, though quite similar to the Armor-Hanson patent, avoided this patent by raising the salt content above the maximum limit specified in the Armor patent and then masking the salty flavor with a sweetener. The salt-extraction process was adopted by Davis-Cleaver in September, 1970, and notice was sent to Saverslak that royalties would no longer be paid and that Davis-Cleaver wished to surrender the license.

The plaintiff does not contend that the Davis-Cleaver salt-extraction process now in use is an infringement of the Saverslak process patent. It is the contention of the plaintiff, however, that the activities of Davis-Cleaver described in this series of findings of fact, constitute a violation of several provisions of the original licensing agreement.

Plaintiff contends that Davis-Cleaver had an obligation under the contract and, in particular, under paragraph 25 thereof, to grant back to Saverslak the new formula and process to be patented for the benefit of Saverslak and to be subject to a continuing application of the royalty provisions of the license agreement. Plaintiff claims further that the conduct of the defendant, Davis-Cleaver, violates the defendant's obligation under paragraph 13 of the license agreement to use its best efforts in the manufacture and promotion and sale of the licensed product, which process and licensed product, of course, Davis-Cleaver abandoned. The third and final issue between the parties arises out of plaintiff's contention that the defendant breached its obligation to place the Maxlotte designation on its labels as required by the contract.

Turning to the first of these issues, it is the contention of the plaintiff that the defendant had an obligation under paragraph 25 of the contract to assign its new for-

mula, new process, and new product to the plaintiff. Paragraph 25 of the license agreement provides for the disclosure and transfer of the sole property rights to Saverslak of "any and all new formula, methods, process, invention, improvement a,pplication and/or patent for the manufacture and sale of the licensed products." At the heart of this issue is the required resolution of the question whether the Central Soya developed salt process was an improvement on the licensed products, as set forth in paragraph 25. The plaintiff in asserting the enforceability of paragraph 25 and its application to the facts in this case cites and relies upon the case of *Transparent-Wrap Machine Corp.* v. *Stokes and Smith Company,* 329 U.S. 637 (1947), and cases asserting a similar rule of law. It is plaintiff's position that the *Transparent-Wrap* case supports the principle that an agreement to transfer to Saverslak "any and all new formula, methods, process, invention, improvement, application and/or patent for the manufacture or sale of the licensed product" is valid and enforceable. There is no doubt that this is true. In this case, however, the question is not whether paragraph 25 is valid, but rather, assuming its validity, what does it mean? In *Transparent-Wrap,* the facts involved an improvement on an already patented product which was the subject of the license agreement in litigation. A study of the somewhat ambiguous provisions of paragraph 25 of the instant contract suggests that the same meaning was intended. That is to say that paragraph 25 of the license agreement is drafted to cover, and was intended to cover, improvements, invented or acquired by the licensee, relative ". . . to the manufacture and sale of the licensed product". The licensed product here was not just oven-roasted, boneless turkeys. It was the product resulting from the process first disclosed to Davis-Cleaver as a trade secret and later embodied in the Saverslak patents. It was the process referred to in the trial and the briefs by the shorthand appellation "wheat glutin process". The controversial paragraph 25 must be construed to apply only to the wheat glutin process for the production of oven-roasted, boneless turkeys.

When defendants developed the salt-slurry process, they succeeded in avoiding the application of hte Saverslak patents, and at the same time succeeded in developing a type of improvement not contemplated by or covered under paragraph 25 of the license agreement. This conclusion is based upon an interpretation of the language of the agreement and is not inconsistent with any of the case law cited by either of the parties. It is the conclusion of Court, therefore, that paragraph 25 of the license agreement created no obligation on the part of defendant Davis-Cleaver or its parent corporation, Central Soya, to disclose and/or transfer property rights to Saverslak in their salt-slurry process.

Turning to a consideration of the plaintiff's second contention, that is that the defendant breached its obligations under the agreement to utilize its best efforts in the exploitation, manufacture and sale of the licensed product, we look first at the provisions of the applicable paragraph of the contract, paragraph 13. It is necessary to read such a clause as meaning that it creates an obligation upon the defendant to use his best efforts in the promotion and sale of the licensed product, as long as the defendant is selling the licensed product. It cannot be construed to mean that it created an obligation in the defendant to continue to promote and sell the licensed product and continue to pay royalties after he had made the business judgment that it was no longer feasible for him to do so for reasons relating to profitability. There is no doubt that the ingenuity of the defendant in developing a salt-slurry process which avoided the Carlin patent, thus enabling it to market oven-roasted, boneless turkeys on a royalty-free basis, created for it a commercially attractive product and competitive advantage which it was good business to take advantage of. In this context, it cannot be said that defendant Davis-Cleaver/Central Soya was without legal justification for abandoning entirely the Saverslak process *and its license to utilize it, in favor of its own* ROYALTY-free process which gave it at

least an equal if not a superior product and a clear competitive advantage. Under these circumstances, it cannot be concluded that a best-efforts clause in a contract would require a defendant to forego this competitive advantage in order to continue to pay royalties under a license agreement for a process it was no longer interested in using. It is the conclusion of the Court, therefore, that the conduct of defendant Davis-Cleaver was not in violation of paragraph 13 of the licensing agreement.

The third and final contention of the plaintiff is that he has a contract right to compel Davis-Cleaver to use his trademark "Maxlotte". Paragraph 22 of the licensing agreement clearly requires that all packages containing the licensed product shall have imprinted therein the trademark Maxlotte. Defendant's arguments that there was no sense to the use of the trademark Maxlotte are irrelevant, in the face of the obvious fact that they had contracted to do so. Davis-Cleaver admits that in 1961, for a variety of reasons, it unilaterally reduced the prominence of the Maxlotte name which resulted in a letter dated September 26, 1961, from Saverslak complaining of this reduction. In a letter from Saverslak's attorney to the defendant on November 2, 1962, a further insistence upon the use of the trademark specified in article 22 was reiterated by Saverslak's counsel.

The various arguments of defendant justifying the reduction in size of the Maxlotte legend and its discontinuance in 1963 are without merit.

Defendant now argues that plaintiff waived his right to insist upon the contract obligation to use the name Maxlotte, a defense which plaintiff correctly points out was not raised in the pleadings. Plaintiff argues with merit that no serious damage occurred to Saverslak from the failure to utilize the Maxlotte name until defendant withdrew from the royalty agreement and discontinued using the Saverslak process. Defendant did not advise its customers or the trade of its changeover from the Savers-

lak wheat-glutin process to the new salt-slurry process. They were not informed that there had been a change. If the Maxlotte trademark had been prominently displayed on all Davis-Cleaver labels throughout the life of the Saverslak/Davis-Cleaver relationship as required by the contract existing between the parties, defendant's customers would have identified the wheat-glutin process oven-roasted, boneless turkeys manufactured under the Saverslak process with the name Maxlotte. When, after termination of the license agreement and the utilization by defendant of a different process, the Maxlotte trademark disappeared from its product, Saverslak could have reached and sold to defendant's former customers who could have identified him with the Maxlotte process. It is quite possible that Saverslak could have mounted a successful merchandising program predicated upon the *superiority* of the wheat-glutin process under the Maxlotte name, to the new Davis-Cleaver process which involved an excess of salt in order to avoid a patent, which salt was subsequently masked with a sweetener. Defendant's failure to live up to its contract obligation to prominently display the Maxlotte trademark and to reinforce the identification of the wheat-glutin process with the Maxlotte name has deprived the plaintiff Saverslak of this competitive and marketing advantage. It is the conclusion of the Court that the defendant Davis-Cleaver, from the period of termination of the use of the name Maxlotte in March, 1963 until the termination in Septmber, 1970 of the use of the Saverslak process by Davis-Cleaver, was in violation of paragraph 22 of the contract. Defendant cannot be allowed to benefit by its own callous disregard of the legitimate demands of plaintiff to respect its obligations under this paragraph. It is the conclusion of the Court that the defense of waiver or estoppel is unjustified under the circumstances. A fortiori it is clear that defendant Davis-Cleaver cannot, as it attempts to do in paragraph 14(d) of its counterclaim, translate a portion of an agreement into which it willingly entered and afterwards egregiously ignored, into a basis for a counterclaim for damages against Saverslak.

The story the evidence in this case reveals is an oft-told and sad one. Saverslak, the small, under-capitalized inventor turns to the mutually-beneficial license agreement with the larger firm of Davis-Cleaver. There follows the honeymoon of mutual profits and friendly business relationships, succeeded by the merger of Davis-Cleaver into the even bigger corporation, Central Soya. Unencumbered by the background of the long-time friendly relationship, the new parent corporation applies its business analysis techniques to the situation and moves to maximize profits by avoiding the license agreement obligation it sees as an unwarranted expense.

It may not be praiseworthy that Central Soya immediately after its entry into the Davis-Cleaver/Saverslak relationship began research to create a satisfactory product outside the limits of the Saverslak patent and the license agreement thereunder. Neither is it praiseworthy that they avoided the *Swift/Carlin* patent by using what may be deemed an excessive amount of salt and then masking its unpleasant consequences to the customer with an otherwise unnecessary sweetener. But praiseworthy or not, from the point of view of the law, both these techniques were legal and successful.

Saverslak is left with his original process, his original patents, some good years and some bitter memories. Central Soya emerges with a better profit picture and some possible troubling of whatever passes for conscience in the corporate world today.

Conclusion

By order of Court, the issues in this case were severed to provide for a trial and detemination of the issue of liability and a deferral of the question of damages. It is the conclusion and judgment of the Court that plaintiff has not sustained its contention that defendant Davis-Cleaver is liable for failure to use its best efforts to market the licensed product under paragraph 13 of the agreement between the parties. The Court concludes further that the plaintiff has not sustained its burden of estab-

lishing the liability of defendant for failure to disclose and assign its new formula and process to plaintiff under the provisions of paragraph 25 of the agreement between the parties. It is finally the decision and conclusion of the Court that the defendant is liable for its failure to live up to its obligations under paragraph 22 of the agreement between the parties and is liable for such damages as have resulted from its discontinuance of its use of the plaintiff's Maxlotte trademark on the licensed product as that paragraph required.

The cause is set for a pretrial conference and for the determination of the date of further hearing on the issue of damages for 9:30 a.m. on Tuesday, January 7, 1974.

ENTER:

/s/ Frank J. McGarr
United States District Judge

DATED: November 29, 1974

IN THE
UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

No. 71 C 810

IRVING S. SAVERSLAK, et al.,

Plaintiffs.

vs.

DAVIS-CLEAVER PRODUCE COMPANY,

Defendant.

MEMORANDUM OPINION AND ORDER

On November 29, 1974, this Court found the Davis-Cleaver Produce Company liable for its failure to live up to the obligations imposed upon it in Paragraph 22 of the agreement between the parties, by virtue of its discon-

tinuance in March of 1963 of the Maxlotte trademark on a product it was producing and selling under a license from the plaintiff. This failure to respect its contract obligations to use the Maxlotte trademark on the labels of oven-roasted, boneless turkeys it was selling continued until September, 1970, at which time the defendant discontinued use of the licensed wheat glutin process in favor of a salt-slurry process it had developed. The defendant thereafter continued the sale of the same product to the same customers without the requirement to pay royalties under the license agreement, because of the process change.

The failure to use the Maxlotte trademark during the period from March, 1963 to September, 1970 prevented and avoided the building of goodwill and the public recognition for the Maxlotte wheat glutin process, which goodwill and identity could have been capitalized upon by the plaintiff when Davis-Cleaver changed its process.

It is difficult to determine what Saverslak would or could have done with the Maxlotte trademark in 1970 if adherence to the contract by Davis-Cleaver had maintained its public recognition and its value, but the advantage Davis-Cleaver had by virtue of its contract breach enabled it after September, 1970 to continue to sell non-Maxlotte turkey rolls and Pullman loaves to customers who had no way of knowing that they were getting a different and, perhaps to them, a less desirable product. Saverslak was unable to use his Maxlotte trademark to tap the reservoir of goodwill his oven-roasted, boneless turkey process had accumulated in the marketplace because his trademark had been wrongfully detached from the product for seven years.

Therefore, the post-1970 sales by Davis-Cleaver of turkey rolls and Pullman loaves must become the measure of the damages to plaintiff, because they were sales to customers whose goodwill and buying habits might have accrued to Maxlotte except for Davis-Cleaver's contract violations. Therefore, the profit from these sales must be

the starting point for a determination of the measure of plaintiff's damages. For these reasons, defendant will be required to account to the plaintiff for its net profits for three years on oven-roasted, boneless turkeys and Pullman loaves.

The principles enunciated herein are for the purposes of determining the parameters of the damage issue and are not to be deemed the precise formula by which damages will ultimately be awarded.

The defendant's contention that the entire contract between the parties, one paragraph of which has been the basis for a finding of liability in this case, is unenforceable because of illegality, has been considered by the Court and is deemed to be without merit.

ENTER:

/s/ Frank J. McGarr
United States District Judge

DATED: May 8, 1975

IN THE UNITED STATES DISTRICT COURT

For The Northern District of Illinois

Eastern Division

IRVING S. SAVERSLAK, et al.,

Plaintiffs,

vs.

DAVIS-CLEAVER PRODUCE COMPANY,

Defendant.

No. 71 C 810

MEMORANDUM OPINION

On November 29, 1974, this court found that a portion of the contract obligation between plaintiff and defendant was breached by virtue of the failure of the defendant to use the plaintiff's trademark, "Maxlotte". On May 8, 1975, in a further opinion of the court, broad

outlines of the principles by which damages were to be determined were set forth. There followed extensive discovery as to the net profits on the products in question for the three-year period assigned by the court, in the course of which the differences between the parties as to the formula appropriate to the determination of the net profit figure were crystallized.

On January 24, 1977, the cause was referred to Magistrate Balog to serve as Special Master to conduct hearings on damages and to enter findings as to the damages properly allocabe to the plaintiff within the general parameters established by the court.

On June 8, 1977, Magostrate Balog filed with the court findings of fact and conclusions of law, together with a recommendation that judgment be entered in favor of the plaintiff, Irving S. Saverslak, et all., in the amount of $90,642, with interest to run from the date of the entry of the order.

Both parties have objected to the findings and the court has considered the conflicting memoranda filed as to the validity of the Master's conclusions and the ultimate figure determined by him.

The court recognizes from the outset that the Master was assigned an extremely difficult task, and recognizes further that the instructions accompanying the reference were necessarily imprecise and the Master's discretion great. The Master's analysis of the issues and his application of principles of law to them was excellent, and such disagreement as the court has with the conclusions of the Master are not fundamental.

Because in a determination of this type no mathematical precision is possible, the court must arrive at an appropriate damage figure guided more by its sense of equity than by any rigid adherence to mathematical formulae or methods of approach found in other cases.

It was in this context that the determination was originally made that the plaintiff was entitled as damages

to net profits on the sale of oven roasted boneless turkeys and pullman loaves for a three-year period. The determination of what deductions to apply to the gross sales figures for those products for those years, in order to arrive at an equitable net profit figure, was the task of the Master, which he approached and resolved with commendable diligence.

The parties in their objections to the Master's conclusions argue much about the ways and means for evaluating good will. Whatever damage to plaintiff's good will or enhancement of defendant's good wil may be found, has been subsumed into the simple formula of damages measured by net profits for three years, and need not otherwise be considered.

In view of the foregoing considerations, and except for the inclusion of good will, the court adopts the logic and mathematics of the Special Master as set forth in his findings for the year Septemb, 1970 to August, 1971, detailed in paragraphs 5 through 15. Stated another way, the court accepts the formula for and the resulting computation of after-tax profits on that portion of the turkey operation limited to the Saverslak-type product, in the amount of $64,365. The subsequent use of the formula to determine the value of good will is deemed unnecessary and not relevant to the computation of damages.

Applying the same concepts to the year September, 1971 to August, 1972, results in the net profit figure allocable to the Saverslak product of $90,335.

The application of the same principles to the determination of the profits for the year September, 1972 to August, 1973, results in a figure of $65,806.

The total of these three figures is $220,506, which this court regards as an approximate and acceptable determination of the net profits derived by the defendant from its previously-determined improper conduct.

To this sum must properly be added interest at the statutory rate of six percent from the date of the Master's report.

Application of the plaintiff for pre-judgment interest is denied. Application of the plaintiff for costs and attorneys fees is denied. In conclusion, judgment is entered in favor of the plaintiff, Irving S. Saverslak, et al., in the amount of $220,506, with interest at six percent, from the date of the entry of the Magistrate's order, June 8, 1977.

ENTER:

/s/ Frank J. McGarr
United States District Judge

DATED: April 27, 1978

IN THE UNITED STATES DISTRICT COURT

For The Northern District Of Illinois

Eastern Division

IRVING S. SAVERSLAK, et al.,

Plaintiffs,

vs.

DAVIS-CLEAVER PRODUCE COMPANY,

Defendant.

No. 71 C 810

JUDGMENT ORDER

Objection's to Special Master's report considered by the court and ruled upon.

Judgment awarded to plaintiff Irving S. Saverslak, et al. in the amount of $220,506, plus interest at six percent, from the date of the entry of the Magistrate's order on June 8, 1977.

ENTER:

/s/ Frank J. McGarr
United States District Judge

DATED: April 27, 1978

APPENDIX C

Excerpts from "License Agreement" dated May 20, 1959 between Irving S. Saverslak, Licensor, and Davis-Cleaver Produce Company, Licensee.

13. Licensee agrees that it will proceed with diligence and will exert its best efforts in the exploitation, manufacture and sale of the licensed products, and in all ways and to the best of its ability will promote the sale of the licensed products throughout the licensed territory and supply the market therefor.

20. Licensee during the term hereof in promoting the sale of the licensed products in the licensed territory, shall not manufacture, sell or offer to sell any other products competitive with, similar or equivalent to the licensed products.

22. All packages containing the licensed products shall have imprinted thereon the trademark "Maxlotte." The style and form of such packaging shall be subject to the written approval of Licensor and after such approval thereof by Licensor, said packaging shall not be changed by Licensee without Licensor's prior written consent. All advertising of the licensed products shall also be submitted to and approved by Licensor.

25. Any and all new formula, methods, process, invention, improvement, application and/or patent for the manufacture and sale of the licensed products, made, invented or acquired by Licensee during the term hereof, shall be disclosed promptly to Licensor, and shall without compensatnon to Licensee, immediately become and be the sole property of Licensor, with the same force and effect as if the same were owned or controlled by Licensor at the date hereof; and Licensee shall on demand of Licensor, and without compensation, execute such applications for

letters patent, assignments and other instruments as Licensor may require in order to vest in Licensor the entire legal and equitable title and interest in and to such formula, methods, process or invention or improvements. The provisions hereof shall be applicable to and govern any such new formula, method, process, invention or improvement.

35. This Agreement and the license hereunder, subject to the terms and conditions hereof, shall continue in full force and effect, unless previously terminated, as provided herein, for a period of twenty (20) years from and after the date hereof; provided that if United States Letters Patent shall issue on Licensor's said formula, secret process, methods and invention, the license herein granted shall extend thereto to the end of the term for which said Letters Patent may be granted or for twenty (20) years from the date hereof, whichever may be longer in duration.

APPENDIX D

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PLAINTIFF'S EXHIBIT 60

Ferndale

OVEN ROASTED - COOKED - FROZEN

USDA INSPECTED

DISTRIBUTOR PRICE LIST

MARCH 19, 1973

Item	Pack	Pieces	Pieces Weight	Ferndale TURKEY BREAST	List	Approximate 2 oz. Portion Cost
0001	6	6	8-9	Oven Roasted Boneless Breast of Turkey	1.49	.19
0050	6	6	8-9	Oven Roasted Boneless Turkey White-Dark	1.27	.16
0021	6	6	6-8	Oven Roasted Boneless Breast of Turkey — Natural Shape	1.52	.19
0030	6	12	3-5	Oven Roasted Boneless Breast of Turkey — Half Breast	1.55	.19
				For Special Low Sodium Pack add .10 Lb. to Price		
Item	Pack	Pieces	Pieces Weight	Ferndale TURKEY ROLLS	List	Approximate 2 oz. Portion Cost
0100	6	6	7-8	"Deli-Pak" Oven Roasted All White (Oval)	1.29	.16
0120	6	6	7-8	"Deli-Pak" Oven Roasted White-Dark (Oval)	1.12	.14
0110	6	6	7-8	"Deli-Pak" Oven Roasted All White (Oval)	1.21	.15
				"Deli-Pak" Available Pullman Style — 500 Lb. Minimum		
Item	Pack	Pieces	Pieces Weight	Ferndale BEEF TOP ROUNDS	List	Approximate 2 oz. Portion Cost
0250	4	8	6-8	Oven Cooked Good Quality, Well Done	1.52	.19
0205	4	8	6-8	Oven Cooked U. S. D. A. Choice, Medium Rare	1.67	.21
0200	4	8	6-8	Oven Cooked U. S. D. A. Choice, Rare	1.67	.21
Item	Pack	Pieces	Pieces Weight	Ferndale BEEF ROLL	List	Approximate 2 oz. Portion Cost
0325	6	6	6-7	"Deli-Pak" Oven Cooked Boneless Beef	1.58	.20

L. T. L. ORDERS	250-500=	500-1000=	1000-2000=	2000-5000=	5000= UP
1 Delivered Ex-Warehouse	Plus .02 Lb.	List Price	Less .01 Lb.	Less .02 Lb.	Less .03 Lb.
2 Picked Up Ex-Warehouse	List Price	Less .01 Lb.	Less .03 Lb.	Less .04 Lb.	Less .05 Lb.
3 Delivered Ex-Truck	List + Frt.	List Price	Less .03 Lb.	Less .04 Lb.	Less .05 Lb.
4 Multiple Truck Service	XXXX	XXXX	Less .01 Lb.	Less .02 Lb.	Less .03 Lb.

Prices Subject to Change Without Notice — Orders Subject to Final Confirmation

DAVIS-CLEAVER PRODUCE COMPANY
General Office — 235 N. 4th Street, Quincy, Illinois 62301 • Ph. (217) 223-0322
Noblesville, Indiana 46060 - Ph. (317) 773-3786
Carthage, Missouri 64836 - Ph. (417) 358-7924
Riverside, California 92501 - Ph. (714) 682-5397

Quality Control

J-3

Ferndale

PREPARED POULTRY PRODUCTS

"The Best of the Bird"

Portion Control

DISTRIBUTOR PRICE LIST

MAY 22, 1971
REPRINTED NOVEMBER 15, 1971

FROZEN

OVEN ROASTED - COOKED - READY TO COOK

CONTINUOUS USDA INSPECTION

FROZEN

Item	Pack	Wt.	FERNDALE OVEN ROASTED BONELESS TURKEY	List	Approximate 2 oz. Portion Cost
0001	6	8/9	Oven Roasted Boneless Breast of Turkey	1.42	.18
0050	6	8/9	Oven Roasted Boneless Turkey Breast-Thigh, 60/40	1.20	.15
0021	6	6/8	Natural Shape Oven Roasted Boneless Turkey Breast	1.45	.18
0030	6	2-3/5	Natural Shape Oven Roasted Boneless Turkey Half Breast	1.48	.18
LS			For Special Low Sodium Pack add LS to Item No., .10 Lb. to Price		
Item	Pack	Wt.	FERNDALE OVEN ROASTED BONELESS BEEF	List	Approximate 2 oz. Portion Cost
0250	4	12/16	Good Quality Top Rounds, Well Done	1.39	.18
0205	4	12/16	U. S. Choice Quality Top Rounds, Medium Rare	1.54	.19
0200	4	12/16	U. S. Choice Quality Top Rounds, Rare	1.54	.19
0325	6	6/7	Deli-Pak Oven Roasted Boneless Beef	1.44	.18
Item	Pack	Wt.	FERNDALE "DELI-PAK" OVEN ROASTED BONELESS TURKEY	List	Approximate 2 oz. Portion Cost
0100	6	7/8	Deli-Pak Oven Roasted Turkey, White Meat — Oval	1.20	.15
0120	6	7/8	Deli-Pak Oven Roasted Turkey, 60/40 White-Dark Meat — Oval	1.02	.12
0105	4	2-6/8	Deli-Pak Oven Roasted Turkey, White Meat — Pullman Style	1.20	.15
Item	Pack	Wt.	DINNER BELL "DELI-PAK" OVEN ROASTED BONELESS TURKEY	List	Approximate 2 oz. Portion Cost
0110	6	7/8	Deli-Pak Oven Roasted Turkey, White Meat — Oval	1.12	.14
0115	4	7/8	Deli-Pak Oven Roasted Turkey, White Meat — Pullman Style	1.12	.14

L. T. L. ORDERS	250-500=	500-1000=	1000-2000=	2000-3000=	5000= UP
1 Delivered Ex-Warehouse	Plus .02 Lb.	List Price	Less .01 Lb.	Less .02 Lb.	Less .03 Lb.
2 Picked Up Ex-Warehouse	List Price	Less .01 Lb.	Less .03 Lb.	Less .04 Lb.	Less .05 Lb.
3 Delivered Ex-Truck	List + Frt.	List Price	Less .03 Lb.	Less .04 Lb.	Less .05 Lb.
4 Multiple Truck Service	XXXX	XXXX	Less .01 Lb.	Less .02 Lb.	Less .03 Lb.

TERMS NET — Prices Subject to Change Without Notice — Orders Subject to Final Confirmation

DAVIS-CLEAVER PRODUCE CO.
General Office — 235 N. 4th Street, Quincy, Illinois 62301 • Ph. (217) 223-0322
Noblesville, Indiana 46060 - Ph. (317) 773-3786
Carthage, Missouri 64836 - Ph. (417) 358-7924
Riverside, California 92501 - Ph. (714) 682-5397

Quality Control

Ferndale

PREPARED POULTRY PRODUCTS

"The Best of the Bird"

Portion Control

DISTRIBUTOR PRICE LIST

DECEMBER 1, 1967

FROZEN

OVEN ROASTED - COOKED - READY TO COOK

CONTINUOUS USDA INSPECTION

FROZEN

ITEM	PACK	LBS.	NO GELATIN "OVEN ROASTED TURKEY" NO GELATIN	PER LB.
ORW	6	8/9	Ferndale "Oven Roasted" Boneless Turkey Breast, All White Meat	$1.42
ORC	6	8/9	Ferndale "Oven Roasted" Boneless Turkey Breast-Thigh, 60/40	1.20
ORD	6	8/9	Ferndale "Oven Roasted" Boneless Turkey Dark Meat, Thighs	.90
PSW	8	5/6	"Pullman Style" Oven Roasted Boneless, Skinless Turkey Breast, All White Meat	1.52
PSC	8	5/6	"Pullman Style" Oven Roasted Boneless, Skinless Turkey Breast-Thigh, 60/40	1.30
PSD	8	5/6	"Pullman Style" Oven Roasted Boneless, Skinless Turkey Dark Meat, Thighs	1.00
ORB	4	6/8	Ferndale "Oven Roasted" Turkey Breasts, Keel Bone Only	1.40
			FOR SPECIAL PACK "LOW SODIUM" PRODUCT (SALT FREE) ADD .05 LB.	

ITEM	PACK	LBS.	"OVEN ROASTED BEEF"	PER LB.
BBR	4	9/12	Ferndale "Oven Roasted" Boneless Beef Round (U. S. Good Quality)	1.25

ITEM	PACK	LBS.	"OTHER PREPARED POULTRY PRODUCTS"	PER LB.
TRW	6	9	Ferndale Cooked, Boneless Turkey Rolls, All White Meat, No Skin	1.13
TRM	6	9	Ferndale Cooked, Boneless Turkey Rolls, 60/40, All Meat, No Skin	.94
FFS	6	5	Ferndale I.Q.F. Diced, Cooked Chicken Meat "Fines" W/Gr. Skin, Under ¼"	.72
FMS	6	5	Ferndale I.Q.F. Diced, Cooked Chicken Meat, W/Gr. Skin, Under ⅜"	.82
FMO	6	4	Ferndale I.Q.F. Diced, Cooked Chicken Meat, No Skin, Under ⅜"	.92
DMN	6	4	Ferndale I.Q.F. ¾" Diced, Cooked Chicken Meat, No Skin, W/Fines	1.12
DMS	6	4	Ferndale I.Q.F. ¾" Diced, Cooked Chicken Meat, No Skin, W/O Fines	1.17
CKB	6	8	Ferndale Chicken Broth, Concentrated for Soups, Gravies	.18
CKF	1	25	Ferndale Rendered Chicken Fat	Market
IQF			Diced Meat Available, Packed 30# and 60# Bulk	

ITEM	PACK	LBS.	— "READY TO COOK"	PER LB.
RTC	4	8/10	Ferndale "Oven Ready" Boneless Turkey Rolls, 60/40	.83
RTW	4	8/10	Ferndale "Oven Ready" Boneless Turkey Rolls, All White Meat	1.08

ITEM	PACK	LBS.	"BONELESS RAW MEAT"	PER LB.
RTM	6	5	Ferndale Raw Boned Turkey, Mostly Dark Meat	.52
RBF	6	5	Ferndale Raw Boned Fowl, Natural White and Dark Meat	.62

Quantity Discounts: 1000 to 2000 lb. .01 lb. — 2000 to 3000 lb. .02 lb. — 3000 to 5000 lb. .03 lb.

GENERAL TERMS AND CONDITIONS

List Prices are Ex-Warehouse, Delivered Ex-Truck, as Follows:
Under 1000 Lbs., List Prices Plus Delivery Charges. Over 1000 Lbs., List Prices Delivered Original Carriers Destination.
Please Specify Choice of Truck Service.
Prices Subject to Change Without Notice. Orders Subject to Final Confirmation.
Terms Net Weekly.

4 DENOTES PRICE INCREASE

— DENOTES PRICE DECREASE

Telephones
AREA CODE 317

DAVIS-CLEAVER PRODUCE CO.

General Offices

Quality Control

Ferndale

PREPARED POULTRY PRODUCTS

"The Best of the Bird"

Portion Control

DISTRIBUTOR PRICE LIST

FEBRUARY 1, 1967

FROZEN

OVEN ROASTED - COOKED - READY TO COOK

CONTINUOUS USDA INSPECTION

FROZEN

ITEM	PACK	LBS.	NO GELATIN "OVEN ROASTED TURKEY" NO GELATIN	PER LB.
ORW	6	7/9	Ferndale "Oven Roasted" Boneless Turkey Breast, All White Meat	$1.45 —
ORC	6	7/9	Ferndale "Oven Roasted" Boneless Turkey Breast-Thigh, 60/40	1.23 —
ORD	6	7/9	Ferndale "Oven Roasted" Boneless Turkey Dark Meat, Thighs	.93 —
PSW	8	5/6	"Pullman Style" Oven Roasted Boneless Skinless Turkey Breast, All White Meat	1.55 —
PSC	8	5/6	"Pullman Style" Oven Roasted Boneless, Skinless Turkey Breast-Thigh, 60/40	1.33 —
PSD	8	5/6	"Pullman Style" Oven Roasted Boneless, Skinless Turkey Dark Meat, Thighs	1.03 —
ORB	4	6/8	Ferndale "Oven Roasted" Turkey Breasts, Keel Bone Only	1.43 —

ITEM	PACK	LBS.	"OVEN ROASTED BEEF"	PER LB.
BBR	4	9/12	Ferndale "Oven Roasted" Boneless Beef Round (U. S. Good Quality)	1.25

ITEM	PACK	LBS.	"OTHER PREPARED POULTRY PRODUCTS"	PER LB.
TRW	6	9	Ferndale Cooked, Boneless Turkey Rolls, All White Meat, No Skin	1.16

APPENDIX E

DEFENDANT'S EXHIBIT 13
PLAINTIFF'S EXHIBIT 18

Law Offices
SCHWARTZ AND COOPER
33 North La Salle Street
Chicago 2

May 11, 1961

Telephone
Randolph 6-0845

Joseph H. Schwartz
Edward A. Cooper
Ira S. Kolb
Jacob Cohen
Allen H. Schwartz
Marvin S. Berz
Adolf Loeb

Malcolm M. Gaynor
Davis Cleaver Produce Company
235 North 4th Street
Quincy, Illinois

Gentlemen:

Our client, Irving S. Saverslak, has requested that we write you with respect to the provisions of paragraph 22 of the License Agreement dated May 20, 1959 by and between our client and your company. The pertinent provision thereof is as follows:

> "The style and form of such packaging shall be subject to the written approval of Licensor and after such approval thereof by Licensor, said packaging shall not be changed by Licensee-without-Licensor's prior written consent."

It is our considered opinion that the foregoing provision includes the style and form of labels, and by reason thereof, such labels *are subject to the written approval of Licensor* and after such approval by Licensor, such label cannot be changed without Licensor's prior written consent.

We trust that in the light of the foregoing, you will comply with the above packaging provision.

Yours very truly,

/s/ Ira S. Kolb, for
SCHWARTZ AND COOPER

ISK:mf

PLAINTIFF'S EXHIBIT 19
DEFENDANT'S EXHIBIT 14

Chicago, Illinois, September 26, 1961.

Davis-Cleaver Produce Company
Quincy
Illinois

Gentlemen:

Pursuant to the provisions of the License Agreement dated May 20, 1959, I have from time to time made demand to examine the various labels which you are including in the packaging of boneless turkey produced in accordance with the Maxlotte process, Patent No. 2922718.

Recently you furnished me with the various labels presently being used and I wish to advise that the following labels meet with my approval with the exception that the word "Maxlotte" on said labels should be uniformly the size appearing on the "Royalheart" label:

FERNDALE, EMPIRE STATE, MAXLOTTE,
ROYALHEART.

If you will increase the size of the printing of the word "MAXLOTTE" as indicated above, I find no objection to the use of the aforesaid labels.

With respect to the "Gourmet" label, I disapprove entirely of ts use in packaging boneless turkey under the Maxlotte process and, pursuant to the rights granted to me under the License Agreement, hereby demand that you cease and desist from using this label.

Yours very truly,

/s/ Irving S. Saverslak
Irving S. Saverslak

Registered Mail.

PLAINTIFF'S EXHIBIT 20

Chicago, Illinois
October 8, 1962

Davis Cleaver Produce Company
Quincy, Illinois

Gentlemen:

Pursuant to the license agreement between Davis Cleaver Produce Company and Irving Saverslak, please be advised that the following notation changes must be made on the "Product Labels and Packaging Materials".

1. On the Oven Roasted Boneless Turkey.

MAXLOTTE LICENSED UNDER
U.S. PAT. 2922718-3036922
And Other Pending Patents

2. On the Oven Roasted Boneless Turkey-Pullman Loaf.

MAXLOTTE LICENSED UNDER
U.S. PAT. 3036922
And Other Pending Patents

These changes are effective immediately.

Sincerely yours,

/s/ Irving Saverslak
Irving Saverslak

PLAINTIFF'S EXHIBIT 21

November 2, 1962

182-79

Hofgren, Brady, Wegner, Allen & Stellman
20 North Wacker Drive
Chicago 6, Illinois

Re: Irving S. Saverslak—Davis-Cleaver Produce Company

Dear Axel:

This will confirm our phone conversation of October 31, 1962 regarding the above matter, including your letter of September 17 to Marvin Berz and Mr. Otto Wright's letter to Irving Saverslak of October 27, 1962.

During this phone conversation we indicated to you that Mr. Saverslak has no objection to out of the country sales of the licensed product, provided that all royalties are paid under the terms of the agreement. We pointed out to you that the audit for the period ending July 31, 1962 showed unreported sales of 57,683 pounds on the turkey roll production and unreported sales of 20,830 pounds on the Pullman Loaf production. The auditor indicated that the unreported sales were based on shipments to Sweden and England.

You have asked us for a copy of the auditor's report and we are pleased to hand you herewith a photostat of the copy that has been submitted for our consideration.

With regard to the Pullman Loaf production we call attention to Mr. Saverslak's disclosure of this development to your client under the provisions of article 24 of the agreement. We are at present processing a United States patent application on the Pullman Loaf production method, and in view of your request we are pleased to also hand you herewith a copy of this patent application.

During our conversation we explained to you that United States Letters Patent Nos. 3,036,922 and 2,922,718 have already issued to Mr. Saverslak and that corresponding Canadian applications are still pending. You indicated that you already had knowledge of the issued patents.

With regard to Mr. Wright's inquiry on the nature of the pending applications, requested in his letter of October 27 to Mr. Saverslak, we point out that the pending applications include the above referred to Canadian applications and the enclosed application on the "Pullman Loaf."

Our client of course is merly asking Davis-Cleaver to identify the patent numbers and to make reference to the pending applications on all of its labels as required by article 23 of the agreement. We presume of course that the trademark specified in article 22 of the agreement is being used on all packages.

In the circumstances, it would appear that your client should promptly remit payments for all sales, whether domestic or foreign, and should continue to report and pay these royalties under the terms of the contract. It would also appear that all of your client's labels should bear the trademark "Maxlotte", the patent numbers, and the statement such as "other patents pending".

Therefore Mr. Saverslak will now expect to promptly receive from your client a full report and royalty payment on all previously unreported sales under the terms of the agreement, a sample of the label to be used and assurances that all future royalty payments will include all turkey roll and Pullman loaf sales regardless of destination.

/s/ J. Arthur Gross

J. Arthur Gross

Encls.
cc-
Mr. Irving Saverslak
cc-
Marvin S. Berz, Esq.

APPENDIX F

PLAINTIFF'S EXHIBIT 49

October 1, 1970

Mr. Irving S. Salverslak
Poultry Poducts Research Co.
1115 West Fulton Market
Chicago, Illinois

Re: Your Patents No. 2,922,718
and No. 3,036,922, and
License Agreement and Amendments

Dear Mr. Saverslak:

There is in existence between us a certain License Agreement dated May 20, 1059, amended by a letter dated October 17, 1960, and further amended by a letter dated February 22, 1963.

We have found it necessary to discontinue use of the process of your Patent No. 2,922,718 and the process of your improvement Patent No. 3,036,922. The licensed processes were discontinued by us on September 1, 1970. In order that you may be free to license others under your Patents, we hereby surrender all our rights under such Patents and under the above Agreement and its amendments.

Since the processes are no onger being used by us, no further payments with respect to the License Agreement and its amendments will be made after the sale of and payment therefor of the last of the products made by under the licensed Patents, and we expect such sales and payment to be completed by October 1, 1970.

Yours very truly,

Davis-Cleaver Produce Company
By /s/ Joseph F. Jones
Joseph F. Jones ,Vice
President

JFJ:mw

PLAINTIFF'S EXHIBIT 50

POULTY PRODUCTS RESEARCH COMPANY
1115 West Fulton Market
Chicago, Illinois 60607

October 10, 1970

Davis-Cleaver Produce Company
235 North Fourth Street
Quincy, Illinois 62301

Attention: Mr. Joseph F. Jones, Vice President

Re: Our License Agreement dated May 20, 1959, as amended

Gentlemen:

I have your letter of October 1, 1970 on the above agreement, and am surprised to learn of your position that you have found it necessary to discontinue your operations under the agreement.

Obviously, I cannot accept your offer to surrender all of your rights under the patents and agreement. It also follows that I cannot accept the ast paragraph of your letter in which you state that no further payments with respect to the license agreement will be made after October 1, 1970.

I plan to be in Quincy next Thursday, October 15, and would appreciate a definite appointment with you on that day to review the entire matter. If you cannot meet with me next Thursday for this purpose, please telephone me for arranging a mutually suitable date. If I do not hear from you before Thursday I will be in your offices at about 1:00 PM for our meeting.

Sincerely yours

Poultry Products Research Co.
Irving Saverslak

PLAINTIFF'S EXHIBIT 52

REGISTERED MAIL
RETURN RECEIPT REQUESTED

December 4, 1970

Davis-Cleaver Produce Company
235 North 4th Street
Quincy, Illinois 62301

RE: Davis-Cleaver—Saverslak Agreement.

Gentlemen:

This unilateral amendment is made and delivered to you by the undersigned in respect to the matters set forth in a letter dated November 18, 1970, from your attorneys, Dawson, Tilton, Fallon & Lungmus to my attorneys, Hill, Sherman, Meroni, Gross & Simpson.

Irving S. Saverslak, Licensor, hereby amends the License Agreement dated May 20, 1959, between your company as Licensee and the undersigned, as amended by letter dated October 17, 1960, by letter agreement dated February 22, 1963 and letter dated February 28, 1966 as follows:

1. Paragraph 20 of said License Agreement dated May 20, 1969 shall be and is hereby cancelled and deleted. However, the cancellation of this Paragraph 20 shall not in any way affect the continuing obligation of Licensee to exert its best efforts under Paragraph 13.

2. Paragraph 21 of the License Agreement dated May 20, 1959 shall be and is hereby cancelled and deleted.

3. Paragraph 26 of the License Agreement dated May 20, 1959 is hereby cancelled and deleted.

4. Licensor hereby grants to Davis-Cleaver Produce Company a right and option to be exercised by written acceptance within sixty (60) days from the date of this letter, to extend the existing license, as amended, after May 29, 1979, as to Canada only under Canadian Patents 663,735 and 845,071 for the separate terms of each of said Canadian patents.

/s/ Irving, S. Saverslak (Seal)
Irving S. Saverslak, Licensor.

Dated: December 4, 1970.

APPENDIX G

THE U.S. CONSTITUTIONAL PROVISION

Art. 1, Sec. 8. The Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and *discoveries.*

CHAPTER 83, ILLINOIS STATUTES § 17 (1977)

17. Writings—New contract.] § 16. Except as provided in Section 2-725 of the "Uniform Commercial Code", enacted by the Seventy-second General Assembly,[1] actions on bonds, promissory notes, bills of exchange, written leases, written contracts, or other evidences of indebtedness in writing, shall be commenced within 10 years next after the cause of action accrued; but if any payment or new promise to pay shall have been made, in writing, on any bond, note, bill, lease, contract, or other written evidence of indebtedness, within or after the period of 10 years, then an action may be commenced thereon at any time within 10 years after the time of such payment or promise to pay. As amended by act approved July 31, 1961. L.1961, p. 2304.

[1] Chapter 26, § 2-725.

Rule 52. F.R.C.P.

FINDINGS BY THE COURT

(a) *Effect.* In all actions tried upon the facts without a jury or with an advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon, and judgment shall be entered pursuant to Rule 58; and in granting or refusing interlocutory injunctions the court shall similarly set forth the findings of fact and conclusions of law which constitute the grounds of its action. Requests for findings are not necessary for purposes of review. Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses.

FILED
JAN 14 1980
MICHAEL RODAK, JR., CLERK

79-950

IN THE

Supreme Court of the United States

No. 79-050

IRVING S. SAVERSLAK, INDIVIDUALLY AND AS TRUSTEE UNDER TRUST AGREEMENT DATED OCTOBER 1, 1959, AS AMENDED,

Petitioner,

vs.

DAVIS-CLEAVER PRODUCE COMPANY, A MISSOURI CORPORATION,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO THE PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

JEROME F. FALLON,
JOHN W. CHESTNUT,
209 South LaSalle Street,
Chicago, Illinois 60604.
Attorneys for Respondent.

Gunthorp-Warren Printing Company, Chicago • Financial 6-6565

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TABLE OF CASES.

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Pasquel v. Owen, 186 F. 2d 263 (8th Cir. 1950)	4
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IN THE

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ARGUMENT.

I.

A "BEST EFFORTS" CLAUSE IS TO BE A SHIELD FOR THE LICENSOR, NOT A SWORD AGAINST A LICENSEE.

Petitioner Saverslak misapplies the case law—in each of the three cases relied upon, the licensee wanted to keep the license, yet not pay under it. In the principal case of *Eclipse Bicycle Company* v. *Farrow,* 199 U. S. 581 (1905) we read at page 587:

"On February 15, 1898, it wrote to Farrow that it could not get a patent that was worth a pinch of snuff; but, so far from tendering a reconveyance, went on to say that if the work which the company was turning out 'holds up all right, we may be able to work your brake in with ours, but as to this it is uncertain and we doubt it.' Of course the defendant could not rescind the contract without returning what it had received under it. *So the contract remained in force.*" (Emphasis supplied.)

In *Carbo-Frost, Inc.* v. *Pure Carbonic,* 103 F. 2d 210 (8th Cir. 1939), we read at page 222:

"If he finds it expedient to purchase the competing device and sees fit to use it in place of the licensed device, he must pay royalty thereon. Otherwise he perpetrates a legal fraud on the licensor because he escapes (in whatever measure he desires) all liability to promote or exploit—thus he not only nullifies, at his pleasure, a provision of the license which is of vital importance to the licensor but *he retains control of the licensed device with no burden to himself.*" (Emphasis supplied.)

In *Mechanical Ice Tray Corporation* v. *General Motors Corp.,* 144 F. 2d 720 (2nd Cir. 1944) we read at page 725:

"If he sees fit to overcome the competition by purchasing the right to make the competing article, he cannot substitute the latter for the licensed device without thereby violating his covenant to exploit *so long as he retains an exclusive license.*" (Emphasis supplied.)

Here, respondent Davis-Cleaver did not want the license—for the reasons set down by the Trial Court (A26a-27a):

"There is no doubt that the ingenuity of the defendant in developing a salt-slurry process which avoided the Carlin patent, thus enabling it to market oven-roasted, boneless turkeys on a royalty-free basis, created for it a commercially attractive product and competitive advantage which it was good business to take advantage of. In this context, it cannot be said that defendant Davis-Cleaver/Central Soya was without legal justification for abandoning entirely

the Saverslak process and its license to utilize it, in favor of its own royalty-free process which gave it at least an equal if not a superior product and a clear competitive advantage. Under these circumstances, it cannot be concluded that a best-efforts clause in a contract would require a defendant to forego this competitive advantage in order to continue to pay royalties under a license agreement for a process it was no longer interested in using."

The particularly pressing matter—not referred to by petitioner—was the probable infringement of the Swift & Co. Carlin patent. This also covered the use of gluten as a binder for meat products including turkey, and was senior to Saverslak. The Carlin patent took longer to get through the Patent Office and was on appeal when Saverslak's patent issued. However, Saverslak lost a priority contest in the Canadian Patent Office to Carlin—but never told this to Davis-Cleaver.

So what Saverslak is attempting to do is *coerce* Davis-Cleaver into using his patent where it didn't want to. This runs squarely against this Court's holding in *Zenith Radio Corp.* v. *Hazeltine,* 395 U. S. 100, 136 (1969):

"Brulotte thus articulated in a particularized concept the principle that a patentee may not use the power of this patent to levy a charge for making, using, or selling products not within the reach of the monopoly granted by the Government."

So what the case law on "best efforts" stands for is that the licensee cannot play "dog in the manger". The licensor is entitled to use this clause as a shield against the fraud that would otherwise be perpetrated on him—and cancel the license, but not extort royalties on a non-patented product. This is in accord with the rationale of *Lear* v. *Adkins,* 395 U. S. 653, 670 (1969):

"Surely the equities of the licensor do not weight very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain."

II.

THE AWARD OF DAMAGES FOR TRADEMARK NON-USE WHEN SAVERSLAK ACQUIESCED IN THIS WOULD BE UNFAIR.

Each year during the period Davis-Cleaver was making gluten bound turkey rolls (1959-1970), Saverslak visited the plant in Quincy, Illinois and each time took home a Davis-Cleaver turkey roll (App. 5a). Each roll was fully labeled in accordance with U. S. D. A. requirements. Thus, in the period 1963-1970 he saw clearly that there was no use of his trademark "MAXLOTTE". He could have cancelled the license but chose not to do so—any subsequent infringement suit would have started a prior art search, with the uncovering of the Carlin patent and invalidation of Saverslak's patent. So Saverslak did nothing—but collected about $40,000 each year.

Saverslak's brief fails to mention that the trademark discontinuance was occasioned by Saverslak's going into the turkey roll business on his own—so that the license was no longer exclusive. Admittedly, he retained that right, but Davis-Cleaver was loathe to advertise a competitor. At that juncture, Saverslak should have cancelled—or at least threatened cancellation, but he did nothing—continuing to take his $40,000 a year under the patent license.

This election, really a rewriting of the contract, parallels that in *Pasquel* v. *Owen*, 186 F. 2d 263 (8th Cir. 1950). In that case, the Court permitted the defense of waiver. Under *Pasquel's* inducement, Mickey Owen, one-time Cub catcher jumped to the Mexican league in 1946 to be player-manager. After serving as player-manager for a time, he was removed as manager but continued to play—and at the same salary. It was held that he waived any damages for not being continued as manager, the Court saying at page 270:

> The evidence is without dispute not only that defendant had under this contract acted as manager only for a period

> of some five or six weeks but it is equally without dispute that after he was relieved from his duties as manager he continued to perform his duties as a player and to receive his compensation as such for a period of four or five weeks. He did not communicate with the plaintiff as he might have done. He registered no complaint so far as the plaintiff knew and he gave no intimation to plaintiff that he was dissatisfied or intended to abandon the contract because of its alleged breach."

The Court then went on to say that

> "any act indicating an intention to continue under the contract will operate as a conclusive election."

Saverslak reiterates that 4 letters of complaint were sent—but each of these were at the time when the size of the MAXLOTTE mark was reduced. There was nothing said after the mark had been removed altogether.

Saverslak also criticizes the Court of Appeals for "speculation" in not fixing the "point of 'intentional' relinquishment" (Brf. p. 17). That would be as useful as trying to determine the time the leak started when the tire is flat.

CONCLUSION.

It is respectfully requested that the petition be denied.

Respectfully submitted,

JEROME F. FALLON,
JOHN W. CHESTNUT,
TILTON, FALLON, LUNGMUS
& CHESTNUT,
209 South LaSalle Street,
Chicago, Illinois,
312/263-1841.
Attorneys for Respondent.

79-950

No. 79050

Supreme Court, U. S.
FILED
JAN 24 1980
MICHAEL RODAK, JR., CLERK

In the

Supreme Court of the United States

IRVING S. SAVERSLAK, Individually and as Trustee under TRUST AGREEMENT dated October 1, 1959, as Amended,

Petitioner,

vs.

DAVIS-CLEAVER PRODUCE COMPANY, a Missouri Corporation,

Respondent.

PETITIONER'S REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

ANTHONY R. CHIARA
HILL, VAN SANTEN, STEADMAN, CHIARA & SIMPSON
70th Floor Sears Tower
Chicago, Illinois 60606
312/876-0200

IRA S. KOLB
SCHWARTZ, COOPER, KOLB & GAYNOR CHTD.
33 North LaSalle Street
Room 2222
Chicago, Illinois 60602
312/726-0845

Attorneys for Petitioner.

The Scheffer Press, Inc.—(312) 263-6850

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Eclipse Bicycle Co. v. Farrow, 199 U.S. 581, 26 S.Ct. 150, 50 L.Ed. 317 (1950) 2, 3, 5, 7, 11

Kentucky Natural Gas Corp. v. Indiana Gas & Chemical Corporation, 129 F.2d 17, cert. den. 317 U.S. 678, 63 S.Ct. 161, 87 L.Ed. 544 (1942) 10

Mechanical Ice Tray Corporation v. General Motors Corporation, 144 F.2d 720 (1944) cert. den. 324 U.S. 844 (1944) 65 S.Ct. 679, 89 L.Ed. 1406 ..... 3, 4, 5, 9

Pasquel v. Owen, 186 F.2d 263 (8th Circuit, 1950) 9, 10

Treatises

17 Am. Jur. 2d (Contracts) §447, p. 908 9

3A Corbin on Contracts, §766, pp. 538-539 10

5 Williston on Contracts, Third Edition, §683, pp. 270-271 10

1 Patent Law & Practice, Einhorn, Patent Licensing Transactions (1979) §2.09 p. 2-33 4

IN THE
SUPREME COURT OF THE UNITED STATES

No. 79050

IRVING S. SAVERSLAK, Individually and as Trustee under TRUST AGREEMENT dated October 1, 1959, as Amended,

Petitioner,

vs.

DAVIS-CLEAVER PRODUCE COMPANY, a Missouri Corporation,

Respondent.

PETITIONER'S REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

ARGUMENT

I.

THE "BEST EFFORTS" CLAUSE CANNOT WITH IMPUNITY BE ABANDONED AT WILL BY RESPONDENT-LICENSEE.

Respondent totally fails to answer, Petitioner's argument that the Court of Appeals was wrong: in disregarding this Court's opinion in *Eclipse Bicycle Co.* v. *Farrow*, 199 U.S. 581; in concluding that the "best efforts" clause (¶13) would restrain Respondent from marketing similar or competitive products; and in failing to recognize that the principles enunciated in *Eclipse* will not, in any way, forbid the sale of a substituted product which is neither better than nor different from the patent product, but simply require Respondent to account for royalties or damages for the abandonment of the licensed product (A. p. 14). Respondent states at page 3 of its Brief:

> "So what the case law on 'Best Efforts' stands for is that license cannot play 'dog in the manger'. The Licensor is entitled to use this clause as a shield against the fraud that would otherwise be perpetrated on him—and cancel the license, but not extort royalties on a non-patented product.—"

This is a mis-interpretation. What the law stands for is that a conglomerate may not take the fruits of an individual's invention, create a market for itself running into millions of dollars and then abandon its contract and royalty obligations by foisting an inferior but indistinguishable product on the market and offer to cancel the license before the expiration of its term. The leading cases, *Eclipse*[1], *Carbo-Frost*[2] and *Mechanical Ice Tray*[3] do not permit the licensee to "nullify, at his pleasure, a provision of the license which is of vital importance to the licensor" merely by returning the license agreement; nor does it permit the "legal fraud" of escaping all liability to promote or exploit—merely by returning the license agreement. What these three leading cases are saying is that a licensee to escape liability under the "best efforts" provision is required to do *both*: (1) relinquish his license and (2) substitute a product which is *both* better than and different from the licensed product; otherwise to permit the licensee to escape liability merely by tendering termination of the license agreement would negate the very purpose and legal effect of the best efforts clause.

Substituting an inferior product for the purpose of avoiding royalties is a violation of the best efforts provisions of the contract; failing to return or rescind the contract would pyramid the default to the point of perpetrating a legal fraud on the licensor—two wrongs are not necessary to accomplish an action for breach of contract. In *Eclipse* the Court stated at page 590:

> "—Taking into account the fact that the defendant did not make due efforts to carry out his application, and that it certainly does not appear that the Morrow device was so much, if at all, better than

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[1] *Eclipse Bicycle Co.* v. *Farrow,* 199 U.S. 581, 26 S.Ct. 150, 50 L.Ed. 317 (1950).

[2] *Carbo-Frost Inc.* v. *Pure Carbonic Corp.,* 103 F.2d 210 (1939) cert. den. 308 U.S. 569 (1939) 60 S.Ct. 83, 84 L.Ed. 478 (1939).

[3] *Mechanical Ice Tray Corporation* v. *General Motors Corporation,* 144 F.2d 720 (1944) cert. den. 324 U.S. 844 (1944) 65 S.Ct. 679, 89 L.Ed. 1406.

Farrow's, that due business diligence did not require the company still to push the latter, we are of opinion that on this item it properly was held to account."

Summarizing the law as it has followed said three leading cases, it is stated in 1 *Patent Law & Practice, Einhorn, Patent Licensing Transactions* (1979) §2.09, page 2-33:

> "If the competition which an exclusive licensee faces comes from something not commercially better than the licensed device, the licensee must meet the competition with the licensed article.[4] If the licensee sees fit to overcome the competition by purchasing the right to make the competing article, he cannot substitute the competing article for the licensed device without violating the implied covenant to use his best efforts to effect the purposes of the license. But, if the competition comes from a better article than the one licensed, the licensee need not try to meet it with the licensed device when there is no hope of success. Faced with such a business situation the licensee may, if he can, obtain and exercise the right to make or use the competing article.[5]
>
> "It has been held that where a license specified that the licensee would continuously use its best efforts to promote the use of the licensed devices, the licensor could recover royalties for licensee's use of competing devices, in the absence of evidence that the competing devices were superior and substantially different."[6]

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[4] *Mechanical Ice Tray Corp.* v. *General Motors Corp.*, 144 F.2d 720, 64 U.S.P.Q. 589 (2d Cir. 1944).

[5] Ibid.

[6] *Carbo-Frost, Inc.* v. *Pure Carbonic, Inc.*, 103 F.2d 210, 40 U.S.P.Q. 588 (8th Cir. 1939).

It is obvious that Petitioner does not seek to coerce Respondent into using Petitioner's patent when Respondent did not want to do so. Petitioner does not seek to extort royalties on a non-patented product. What Petitioner seeks, and is entitled to, are the royalties as damages which are legally due him under the teachings of *Eclipse*, *Carbo-Frost, Inc.*, and *Mechanical Tray Corporation.* It can be seen from what has been said in the Petition and this Reply that case law on "best efforts" stands for much more than providing only "that the licensee cannot play 'dog in the manger' ". It stands for much more than being only a "shield" against the fraud that would otherwise be perpetrated by the licensee on the licensor. It stands for much more than affording to licensor the sole remedy of cancelling the license. To assert to the contrary as Respondent attempts at page 3 of its Brief simply misconceives the issues. Patently, no "shield" at all is afforded to Petitioner where Respondent after approximately 11 years of operation under the license agreement, captured the market, and then after attempting to terminate the license, substituted, as the Court of Appeals found, a product "so nearly identical that Davis-Cleaver found it unnecessary to even notify its wholesale customers of the adoption of the latter process." (App. A, p. 15a). In the face of Respondent's concealment, cancellation of the license would be of no moment, particularly where Respondent had further breached its contract obligations by failing to prominently use the Plaintiff's trademark "Maxlotte", thus destroying any possible good will or identification which would have transferred to Plaintiff in any attempt to market the patented product. The District Court stated (B 27a- 28a):

> "* * * Defendant did not advise its customer or the trade of its changeover from the Saverslak wheat-

glutin process to the new salt-slurry process. They there not informed that there had been a change.

* * *

It is quite possible that Saverlak could have mounted a successful merchandising program predicated upon the *superiority* of the wheat-glutin process under the Maxlotte name, to the new Davis-Cleaver process which involved an excess of salt in order to avoid a patent, which salt was subsequently masked with a sweetener. Defendant's failure to live up to its contract obligation to prominently display the Maxlotte trademark and to reinforce the identification of the wheat-glutin process with the Maxlotte name has deprived the plaintiff Saverslak of this competitive and marketing advantage."—(Emphasis Added)

Respondent was not exculpated from its "best efforts" obligations by the mere offer to terminate the license where it had substituted for the licensed product with an indistinguishable competitive product which is neither better than nor different from the licensed product.

Again, the Respondent drags out a red herring in referring to the purported probable infringement of the Carlin patent. Both the trial court and Court of Appeals have already twice told the Respondent that the licensed product did not infringe upon the Carlin patent, and that its injection into the case created a "spurious issue" (A. p. 5a, B. 23a). In any event, the issue here, is not at all one of infringement. *Carbo-Frost, Inc.,* 103 F.2d 210, 223.

After finding against Petitioner on the best efforts issue, the trial court stated (B. 29a):

> "Saverslak is left with his original process, his original patents, some good years and some bitter memories. Central-Soya emerges with a better profit pic-

> ture and some possible troubling of whatever passes for conscience in the corporate world today."

It was the duty and function of the Courts to apply the law to maintain a standard of corporate conscientiousness which is not "troubling". Application of this Court's long established rule in *Eclipse* would have cured that troubling conscience. This court should not avoid that opportunity.

II.

THE AWARD OF DAMAGES FOR TRADEMARK NON-USE SHOULD BE RESTORED.

The breach by Davis-Cleaver of its contract obligation to mark all packages with the trademark "Maxlotte" was wilfully, intentionally and admittedly breached. The trial court awarded damages in the amount of $220,506.00 (B. p. 34a-35a) which judgment was reversed by the Court of Appeals (A. 17a) upon the ground that by continuing to perform under the contract the Court of Appeals *assumed* that Saverslak led Davis-Cleaver to believe ¶22 would not be enforced and stated:

> "We may reasonably assume that Saverslak's silent acquiescence and acceptance of the royalties led Davis-Cleaver to believe that Paragraph 22 would no longer be enforced and that it could safely continue to omit the trademark" (A. p. 13a).

The Court of Appeals further *conjectured* that:

> "Had Saverslak instead raised a timely objection the matter might have been resolved with minimum expense and effort." (A. p. 13a)

This was pure conjecture and the assumption made by the Court of Appeals was in the face of a record wherein no evidence was presented of either any conduct

causing Davis-Cleaver to act to its detriment or upon any reliance upon a belief that Saverslak would not someday enforce his rights to damages.

The Court of Appeals stated (A. pp. 11a, 12a):

> "Saverslak continued to hold this right during at least the initial part of the seven year period during which he silently accepted royalties. At some point, however, which we need not fix, Saverslak's silent acquiescence ripened into an intentional relinquishment of his right to enforce the trademark."

In the face of a ten year Statute of Limitation for breach of a written contract, Saverslak had an additional three years before there could be any extinguishment of his right to damages unless some equitable right was proven to intervene. No such facts exist in the record.

In response, Davis-Cleaver draws a homely analogy:

> "Saverslak also criticizes the Court of Appeals for 'speculation' in not fixing the 'point of 'intentional' relinquishment'—that would be as useful as trying to determine the time the leak started when the tire is flat."

The analogy is inapposite. We know when the "leak started" in 1963 and we know that a statutory period predetermine that the tire would become "flat" in 10 years; Petitioner contests the speculation that some unknown element, still unidentified, caused the tire to go flat before its predetermined statutory period.

Respondent's argument that the license was no longer exclusive after Maxlotte commenced fabricating its own oven-roasted boneless turkey, is also inapposite. A non-exclusive license was reserved in the License Agreement and used only in the Chicago area by Maxlotte. (B. 22a).

A license can have the attributes which make it exclusive in the legal sense though it is not the only license. There may be another license which is non-exclusive. When this is so, the exclusive license does not cover the entire fold, but it binds the licensor not to enlarge the scope of other licenses already granted or reserved. In *Mechanical Ice Tray Corporation*, 144 F.2d 720, 725 the Court stated:

> "••A license can have the attributes which make it exclusive in the legal sense though it is not the only license. There may be one or more previous licenses which are non-exclusive and by contrast with the exclusive license are called bare. When this is so the exclusive license does not, of course, cover the entire field but binds the licensor not to enlarge thereafter the scope of other licenses already granted or increase the number of licenses. It is plain that these parties intended that the defendant should to that extent be free from competition—".

Respondent relies on *Pasquel* v. *Owen* 186 F.2d 263 (8th Circuit, 1950) in attempting to define the *"election"* available to Petitioner. Saverslak was not required, upon Davis-Cleaver's breach, to cancel the agreement nor did he waive any rights under the contract. This is clear under applicable law. Respondent's entire argument is erroneously based on the theory that the Petitioner's continued performance was a "conclusive election". (B. p. 4) An election of what? Respondent does not elucidate.

The answer is succinctly stated in *17 Am. Jur. 2d* (contracts) §447, p. 908:

> "Any act by the injured party indicating an intent to continue will operate as a conclusive election, not depriving him of his right of action for a breach which has already taken place, but depriving him of any excuse for ceasing performance on his own part."

That is the "conclusive election" to which the Court spoke in *Pasquel* v. *Owen* heavily relied upon by Respondent when it stated:

> "Any act indicating an intention to continue under the contract will operate as a conclusive election." (B. p. 5)

Saverslak chose to continue performance and not cancel the agreement.

The nature of the election is explicated by treatises and other authorities to the same effect:

3A Corbin on Contracts, §766, pp. 538-539;
5 Williston on Contracts, Third Edition, §683, pp. 270-271;
Kentucky Natural Gas Corp. v. *Indiana Gas & Chemical Corporation,* 129 F.2d 17, cert. den. 317 U.S. 678, 63 S.Ct. 161, 87 L.Ed. 544 (1942).

In the light of the foregoing applicable principles it is firmly established that Saverslak, upon Davis-Cleaver's breach was entitled to continue under the license agreement, not being thereby deprived of his right of action against Davis-Cleaver for a breach that had already occurred. But in continuing under the Agreement, Saverslak made an election, and that election consisted only of giving up the right to cease performance on his part because of the existent breach by Davis-Cleaver.

Davis-Cleaver's breach accordingly created a liability for damages that was not discharged by any purported claim of acquiescence, laches or waiver.

CONCLUSION

For the foregoing reasons, this Court should grant a writ of certiorari directing the lower courts to restore the judgment for $220,508.00 and to properly apply the rule of the *Eclipse* case to the best efforts clause and to enter judgment for Petitioner thereon.

Respectfully submitted,

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